POVERTY RATE INCREASE FOR 1983

HEARINGS

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT
AND
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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POVERTY RATE INCREASE FOR 1983

WEDNESDAY, AUGUST 9, 1984

HOUSE OF REPRESENTATIVES, COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON OVERSIGHT JOINT WITH SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION,

Washington, DC.

The subcommittees met, pursuant to notice, at 10:20 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (chairman of the Subcommittee on Oversight) presiding.

[The press release announcing the hearing follows:]

[For immediate release, Thursday, Aug. 2, 1984]

HON. CHARLES B. RANGEL (D., N.Y.), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, AND HON. HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCE A 1-DAY HEARING ON THE POVERTY RATE INCREASE FOR 1983

The Honorable Charles B. Rangel (D., N.Y.), Chairman of the Subcommittee on Oversight, and the Honorable Harold Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittees will hold a joint hearing to examine the reasons for the increase in the poverty rate from 15.0 percent in 1982 to the recently announced rate of 15.2 percent for 1983.

The hearing will be held on Thursday, August 9, 1984, beginning at 10:00 a.m. in the Committee on Ways and Means main hearing room 1100 Longworth House Office Building.

The Subcommittees have invited the Honorable David A. Stockman, Director of the Office of Management and Budget and Dr. John G. Keane, Director, Bureau of the Census.

The hearing will focus on why the poverty rate has increased, what policies the Administration is developing to address the increasing number of people living in poverty, and the impact of the tax system on families below or near the poverty level.

WRITTEN STATEMENT SUBMITTED FOR THE RECORD

Testimony will be received from invited witnesses only. All other interested parties wishing to submit a written statement for inclusion in the record of the hearing are encouraged to do so. Persons submitting a written statement should submit at least six (6) copies of their statement by close of business Friday, August 17, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

Chairman RANGEL. I apologize for the delay. We were waiting for Chairman Harold Ford, who, unfortunately, is ill this morning. Staff will be monitoring the hearing. He has a prepared statement which will be included in the record at this point.

[The statement follows:]

STATEMENT OF HON. HAROLD FORD, CHAIRMAN OF THE SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

Thank you, Chairman Rangel. I became Chairman of the Subcommittee on Public Assistance and Unemployment Compensation on September 22, 1981. On October 1, 1981, the budget cuts contained in the 1981 Reconciliation Act went into effect. This Subcommittee began oversight hearings on the effect of those cuts on November 8, 1981 and have continued those oversight efforts right up to today.

For three years we have been receiving two conflicting messages. From this Administration we have heard that there is no substantial poverty problem and certainly not one that an economic recovery won't cure. We have heard from this President that the cuts he rammed through the Congress in 1981 did not affect the poor and truly needy. There was a safety net, he said, to protect those people. Just two weeks ago, we heard the President say that there was not a fact or a figure to support the contention that his policies have hurt the poor. The other message that we received is exactly the opposite of the Administration's message. The General Accounting Office has told us that 493,000 families, including nearly 1 million children lost their AFDC benefits and Medicaid coverage because of the 1981 budget cuts. The result: families have gone without health care, have faced more emergency situations, and have run out of food more often by the end of the month. A Congressional Budget Office study has revealed that the spending cuts have hit low income families the hardest. Roughly 40 percent of the Reagan budget cuts have affected families earning under $10,000 a year. The purchasing power of AFDC benefits has declined by 33 percent between 1970 and 1984. The Congressional Research Service has reported that poverty rose a full percentage point between 1981 and 1982 and that the AFDC cuts forced 560,000 people into poverty.

Today, we examine another study that shows that there is an alarming number of people living in poverty in this country. Over 35 million people are living in poverty. Nearly 12 million of these people are children. Not only is the number outrageously high, it is growing. 868,000 people joined the ranks of the poor in 1983.

In the face of this overwhelming evidence that there is a serious problem in this country and that part of the problem is government policy, the Administration appears to be trying a new message: silence. We invited OMB Director Stockman to testify today, but he was too busy. That is too bad. We wanted to remind him of his statement last year that he was confident that the poverty rate in 1983 would decline dramatically.

For most of the last three years, I have criticized the Administration for not recognizing the problems of the poor in this country. I thought that they just didn't see the problem, and that if enough evidence was presented on the magnitude of the problem, they would join with the Congress in addressing it. I was wrong. The evidence is clear and yet this Administration refuses to even talk about a policy to reduce poverty. The President does not lack facts and figures, he lacks compassion.

We are obviously going to have to proceed without this Administration. I look forward to the testimony today. It will assist us in better understanding the magnitude and nature of poverty so that we can develop sound public policy to combat it.

Chairman RANGEL. Last week, the Census Bureau reported that the Nation's poverty rate increased from 15 to 15.2 percent. Nearly 900,000 Americans fell into poverty in 1983. Today, some 35.3 million Americans have incomes below the official poverty line.

This morning, the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation will examine the census data concerning the increase in poverty and hopefully some of the reasons for this distressing trend.

When the poverty figures were released last week, some in the press referred to this data as a "political problem" for the administration. The comments of the Speaker and others who are very concerned about increasing poverty was viewed simply as political theater, just another round of preelection rhetoric.

It is unfortunate that anyone would view the increase in poverty in this way. In my judgment, 35 million Americans living in poverty is not just a political football; 1 in 4 children in America living in poverty is cause for alarm; 1 in 3 black and Hispanic Americans

living in the ranks of the poor is a matter of national concern; and decreasing shares of national income going to the poor is a question of equity.

We feel we have an obligation to try to close the gap between the very poor in this Nation and the more affluent.

The Ways and Means Committee has within its jurisdiction a number of programs that are designed to assist the poor: For example, Aid to Families with Dependent Children, the Supplemental Security Income Program, the earned income tax credit, and Social Security programs.

We are concerned whether or not policy changes in these programs have contributed to the increase in the poor. Unfortunately, there is strong evidence that suggests this conclusion.

Study after study has documented the impact of the budget reductions on the poor. A CBO study found that families under $20,000 lose $20 billion while families over $80,000 a year gain $35 billion between 1983 and 1985 as a result of recent legislative changes.

CBO's analysis of the distribution of the spending reductions shows that 40 percent of the spending cuts hit families earning less than $10,000 a year, while less than 1 percent hit families earning over $80,000.

A GAO study of the Omnibus Budget Reconciliation Act of 1981 cuts affecting AFDC recipients found average monthly income losses of $115 to $229 and $1,380 to $2,748 annually plus the loss of health insurance benefits in many cases.

I believe that the Congress and America has a moral responsibility to assist those who are living in deprivation. If governmental policy is making their plight worse, we should be honest enough to admit our mistakes and compassionate enough to take corrective action.

Thus, it is very important for this committee and the Congress to fully understand the nature and the extent of poverty in our country.

Whether you are liberal or conservative, Democrat or Republican, we all have some degree of compassion for the poor. We have to look at this matter not in a political light and Congress must assume its responsibility.

It is very important to hear from the administration. In November 1983, David Stockman testified on behalf of the Office of Management and Budget, and he at that time was absolutely confident that this poverty rate was going to decline dramatically.

This did not occur, and we have invited Director Stockman to testify this morning, but because of a conflicting schedule, he cannot be with us, but hopefully, we will be able to schedule a hearing when it can meet with his schedule.

So the Director of Census, Dr. John Keane, was invited and he is here with us this morning. I think it is time for us to get some answers, and we are glad that he is here to provide us with some answers.

I will ask Dr. John Keane, Director of the Bureau of the Census, to come forward, and before he starts his testimony, I would want to hear from the members of the committee, starting with, of course, Congressman Matsui.

Mr. MATSUI. I would like to reiterate your comment that we are not here talking about the issue of poverty because it is helpful politically. I don't think anybody would have the audacity to say the discussion of poverty is political—all of us here are involved in the issue of poverty, because there are over 35 million people that are at or below the poverty line today.

Many of us feel we should help those in need and that desire goes beyond politics.

I would like to comment on Mr. Stockman's absence. As the chairman indicated, last November, Mr. Stockman was before our joint subcommittees and I quote him, "I would be happy to take an invitation to come back here and testify next spring, because I am absolutely confident that the poverty rate is going to decline dramatically for 1983."

He gave two reasons. One, the inflation rate, he said, had disappeared. And second, we are now edging out of the recession. Of course, the poverty rate has not declined dramatically, and I was hoping, and I think other members of this committee were hoping that Mr. Stockman would have taken the opportunity to come back and testify about poverty and what he and the President intend to do about it.

But, unfortunately, the President is in California vacationing, and Mr. Stockman is unavailable to testify before us today.

Let me conclude, Mr. Chairman, making my third and last comment, if I may. The Census Bureau, over the years, has, in my opinion, been a nonpartisan organization. It has been an objective organization with the idea of providing adequate information to the American public and the decisionmakers in Congress.

I am afraid that this administration, as it has with other nonpartisan departments and bureaus of the Federal Government, has politicized the U.S. Census Bureau.

On July 27, the Friday before the Thursday release of the poverty information, I had heard that the press would be briefed on Thursday at 11 in the morning, but Members of Congress would not be briefed until 4 in the afternoon, some 5 hours later.

And at the same time, I was told that we would not be able to comment on the information, because there was a press embargo until 6 p.m. that evening. I called Steve Tupper, the Communications Director of the Census Bureau, and at that time asked him why Members of Congress would be briefed 5 hours later than the press. And second, why we would not be able to discuss this information, if the press should call us, because of the embargo that was contemplated.

His response to me was that he didn't feel that we should comment on the Census Bureau's numbers until they were in the newspaper the next day. Frankly, I am absolutely astonished that a member of the administration would make a statement like that to anybody, whether that person is a Member of Congress or not.

After that conversation, Mr. Rangel's office called, Katie Hall's office called, William Ford's office called, and the Speaker's office called, requesting the information, prior to or at the same time that the Census Bureau would give the information to the press. We were told that the information could not come out, and that the embargo would apply until 6 p.m., because officials in the Com-

merce Department and the White House itself felt that the information should not be discussed in a way that would present conflicting views until the next day, when the newspapers had finally published the data.

I just hope that in the future that this administration, this President—because he is really the one responsible for this, it is not David Stockman—I hope that this President begins to be more engaged in the day-to-day activities of this country and his administration, because I think it is incumbent upon him to make sure that the American public and the elected officials who make decisions receive the information at the same time or before the Nation's media do.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Mr. Chairman, I want to thank you for holding these hearings, and I would like to thank the Census Bureau for coming here this morning to testify on the data issued on income and poverty and noncash benefits.

Having worked with the Census Bureau's data over the years, I have come to know how reliable their work is and how respected the Bureau is throughout the world.

I have never seen them be partisan on any matter. I don't see it now. The Bureau is here this morning to tell us essentially that the poverty rate went from 15 to 15.2 percent, a change, not major, but a change.

All of us here today would like to see the poverty rate declining. None of us wants to see the poverty rate go up any higher. We want to make informed policy decisions based on reliable statistics.

All of us are concerned with poverty, but there is no need to demagogue over changes in poverty rates during this administration, because to do so really is the height of hypocrisy.

Statistics show that under the previous administration, the poverty rate increased from 11.4 percent to 14 percent during 4 years, under the previous administration's budgets for 1978, 1979, 1980, and 1981.

The rate went up during that period of time 2.6 percent. We are here today to talk about a 1.2-percent increase under the two budgets of the Reagan administration. I think that it serves to know where we came from to know where we are.

I realize we are talking about 2 years versus 4, but even if you take only the last 2 years of the last two budgets of the last administration, in fact, there was an increase of 2.3 percent.

I bring this out today specifically, because of the charges against this administration, and what has been made as a case that they have caused poverty. It absolutely will not stick.

Obviously, the budget actions of the President were not the cause of the increase in poverty. The poverty rate does not take into consideration, except for cash benefits, other noncash benefits given by the Government.

As a matter of fact, it has been said, and it is very true, that the poverty rate that is listed would be the same if you doubled all the noncash benefits or if you cut them out 100 percent because they don't take them into consideration.

I think that we better get that very clear from the beginning. If the actions of the Reagan administration were in fact a cause of the increase in poverty, why in the world did the rate go up so much during the previous administration's budget years?

I think that is a question that has to be asked if we are going to start this sort of thing. It is important to remember, as we look at the Census report, that the reductions in our entitlement programs during the past 4 years did not affect the poverty rate.

It could not, except for the cash benefits, because they are not counted, and I think that, too, is something we should discuss further.

What affected it was the social factor of more unrelated adults living together, as well as more women with children living alone due to divorce and out-of-wedlock births, and we ought to recognize this—and if it is a problem, we ought to try to deal with it.

Further, I wish to commend the Census Bureau for looking not only at the cash income, but the value of the income benefits distributed through Government programs.

Since the early 1960's, when we began the war on poverty, we in Congress have recognized the need to provide certain groups with various kinds of public assistance.

How effective have we been? Two groups have benefited especially from inkind benefits. One of those groups is people over the age of 65, and families maintained by women heads of household is the other group.

Without the inkind benefits, those over 65 have a 14.4-percent poverty rate, but when you count the inkind benefits, that rate drops to 3.3 percent. That is rather dramatic. It shows that some of the things that we have had on the books are working, and are doing the job; 40 percent of the families maintained by women with no husband present are poor in terms of cash income, but when you count inkind benefits, this brings that rate down to 24.7 percent, horribly high, but certainly dramatically lower than what it is when you don't count them.

It seems silly not to count inkind benefits. Whether we have an increase or a decrease in the poverty rate, the fact remains that we must work to alleviate the burden of poverty, and in 1984, it appears that we are doing just that.

According to the BLS, there have been 4 million new jobs created in America since January of this year, and 423,000 of those jobs went to female heads of households. That is progress. That is not reflected in these figures.

In the recently enacted deficit reduction package passed out of this committee, signed by the President, supported by the President, we increased the disregard on AFDC, put in a $50 disregard for child support and increased medical benefits in a transition period for people going back to work, so we have done some things on that end.

Let me address the embargo question. I think that it is terrible when an agency of Government gives out information with a request for an embargo and politicians break the request and hold news conferences, and that is the reason the agency was very hesitant to hand out any of the materials.

I would hope that such materials would be made available to everybody at the same time, and it ought to be done about 4:30 in the afternoon, and then everybody could do what they want to with it.

You might get out of the trap that way.

Thank you, Mr. Chairman.

Chairman RANGEL. We will continue this nonpartisan dialog by having the Chair recognizing Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I have no statement to make, except that I am, like the chairman and like Mr. Matsui, disappointed that Mr. Stockman could not be with us today, especially in light of his previous statements.

I wonder if I might inquire of the chairman as to the reason that Mr. Stockman gave for not being with us this morning?

Chairman RANGEL. The reason that he gave staff was that he had a conflict. I don't think that was a conflict of interest, but that he had a conflict.

Mr. PEASE. Well, Mr. Chairman, I hope that the committee would make an effort to reschedule at a time when Mr. Stockman might be able to join us. I think if we are going to have an ongoing dialog and try to get to the bottom of the poverty question, it is important that we have key actors like Mr. Stockman willing to come before us and share his views.

Chairman RANGEL. Thank you.

I did not fully hear the last part of the statement of Mr. Campbell as related to a press conference. I assume that you are not referring to the press conference that Harold Ford and I had when we introduced our poverty legislation in response to the Census data?

Mr. CAMPBELL. Absolutely not. What I was referring to was the statement on the embargo that Mr. Matsui raised, and the point that he made that members of Congress did not have it in advance.

The Census Bureau had embargoed it and as a matter of fact, press conferences were held in advance of the embargo, and my suggestion was, they ought to give it to everybody at the same time, and do it late in the afternoon and avoid that problem.

Chairman RANGEL. Well, I hope that we might hear from the Director on that question.

Mr. MATSUI. Mr. Chairman, could I clarify that matter for Mr. Campbell? You felt that Members should not have had a press conference. Were you talking about the one held last week, Mr. Campbell, or the one that Mr. Ford and Mr. Rangel called when the information was released in 1983?

There are two different press conferences.

Mr. CAMPBELL. It appears that it was both of them and I may stand corrected, Mr. Rangel.

Mr. MATSUI. You were criticizing the Speaker, Mr. Rangel, Mr. Waxman, Mr. Panetta, and Mr. Miller for holding a press conference last week because we broke the embargo and Mr. Rangel and Mr. Ford the year before, when they broke the embargo, I didn't officially receive the information until 8 o'clock.

Chairman RANGEL. We did not receive the information. They didn't share it with Members of Congress.

Mr. CAMPBELL. The point I raised was in response to Mr. Matsui's criticism. I suggested if we have problems with breaking the embargo, it be released late in the afternoon.

Chairman RANGEL. I would like to find out at some point why the press is given a privilege higher than that of Members of Congress. If there is reason for it I hope we will have a chance to exchange views with Census and the administration on this matter.

It shocked us. It was embarrassing to us as Members of Congress, to have to go to the Speaker, and it was more embarrassing for the Speaker to be treated the same way. If in fact that was the way they decided to handle official information paid for by the taxpayers and directed by the Congress to produce.

I don't know, but we hope to get an answer.

Mr. MATSUI. If I may clarify something, however, there was a criticism of the press conference and Mr. Campbell was talking about one last year and one last week. We had our press conference at 3:30, and we didn't receive the information until 4 o'clock last week, so we were not under an embargo.

I take it your comments were incorrect or at least not referring to the press conference held last week?

Mr. CAMPBELL. I am responding to what you said. The embargo said 6:30. The fact is that—when you present information, we are all keenly aware of how it is presented and we are all aware of the fact that this is an election year, and some presentations are made and I don't blame you one bit for it.

The only reason I raised the question was because you raised it.

Mr. MATSUI. Mr. Chairman, I understand that and I am not criticizing you for raising it.

Chairman RANGEL. Mr. Keane, why did the press receive a higher priority on receiving the information than the Members of Congress? If you wish to comment, you may. If not, you may proceed with your testimony.

By unanimous consent, the entire statement will be entered into the record at this time and if you would like to highlight it, you may do that.

In going through your statement, you do respond rather specifically to those questions, so we welcome you here today and any light that you can shed on this complex problem politically or nonpolitically, we certainly would appreciate it.

STATEMENT OF DR. JOHN G. KEANE, DIRECTOR, BUREAU OF THE CENSUS, DEPARTMENT OF COMMERCE, ACCOMPANIED BY DR. GORDON GREEN, ASSISTANT CHIEF, POPULATION DIVISION

Mr. KEANE. Thank you, Mr. Chairman, and good morning to you and your assembled colleagues.

I would like to make five preliminary statements that I think will help clarify some of the issues that will likely be brought up. Then I will address directly the six questions put to the Census Bureau, and make a few concluding comments.

This shouldn't take all that long, perhaps 12 or so minutes.

This joint subcommittee's hearing focuses on an important and obviously sensitive topic, poverty.

Because of this, it is vital that we all clearly understand the nature of the Census Bureau's work and the limitations in this regard.

Here are five clarifying statements pertinent to our overall work, and the topic we address during this hearing.

One, the Census Bureau has not and does not define poverty. Defining poverty is the responsibility of the Office of Management and Budget. The Census Bureau's mandate is to measure, not define, poverty.

Therefore, any questions about the definition of poverty should not be directed to the Census Bureau.

Two, the Census Bureau does not formulate poverty-related Government policies, nor does it do speculative assessments of such policies. This is the responsibility of others. Therefore, any questions dealing with poverty programs and policies are clearly outside the Census Bureau's current responsibility.

Three, the so-called noncash benefits report dealing with poverty measurement is part of the Census Bureau's technical series. It is not part of our standard statistics report series. This distinction needs to be understood. Here is why.

Being part of the technical series means that the poverty measurement methods used are experimental, without professional consensus, not as yet finalized, and still unproven.

At this stage of development, any conclusions drawn from the resulting numbers are accordingly tentative.

The experimental nature of these measurements is consistent with the directive of the 96th Congress and the September 16, 1980, Senate statement on data collection and the poverty level, pages 33 and 34. "The Secretary of Commerce is further directed to continue research and testing of techniques for assigning monetary values to inkind benefits."

Four, we need to distinguish between and to clarify the Census Bureau's control over the content of its report versus the transmission of those reports.

I emphatically state that the content of our reports, any of our reports, is totally under the internal control of the Census Bureau. This means no one outside the Census Bureau can nor does change reported numbers and their interpretation.

However, as part of the Department of Commerce, we do have to obtain the approval of the Department's leadership on procedures before releasing reports.

Such procedures are very carefully considered and by and large our release policy and pattern work quite well. Those who may be occasionally disappointed, and I just heard your disappointment, should know the extraordinary effort that all of us within the Department go to to be helpful, to try to be fair and sensitive to the interested constituencies and their sometimes conflicting needs.

Five, and the last of my clarifying statements, I am before this joint subcommittee's hearing in my professional capacity as Director of the Census Bureau. I am not here to offer you my personal views on any topic raised during this hearing. Were I to have personal views, they would not be germane. I am here as requested to testify as Director of the Census Bureau.

In your letter inviting me to testify before this committee, you asked me to comment on six questions, and I would like to proceed by taking each question in turn.

I will repeat the question for all of us and then respond.

Question 1: What are the 1983 poverty rates among various subgroups of the American population, particularly female-headed families?

On August 2, 1984, the Census Bureau issued two reports on the subjects of income, poverty, and noncash benefits in 1983.

One report contains the official estimates of income and poverty based on money income alone. It is a continuation of the series of reports on these subjects issued each summer, based on results from the March Current Population Survey. That is the income supplement to that report.

The second report, Technical Paper No. 52, third in a series, shows experimental estimates of poverty after counting noncash benefits—see attachment 1—such as food stamps, free or reduced price school lunches, public or subsidized housing, Medicaid, and Medicare.

According to data in the first report, the official poverty rate—see attachment 2—based on money income alone was 15.2 percent in 1983, not statistically different from the 1982 rate of 15 percent. The survey showed "some evidence" that the number of persons in poverty increased.

The 1983 estimate of 35.3 million was 870,000 higher than the estimate for 1982. The phrase "some evidence"—see attachment 3—is a statistical qualification employed by the Census Bureau to signify that the change was statistically reliable at the 90- to 94-percent confidence level rather than the customary 95 percent or higher level.

That 95-percent level is the level that the Bureau typically uses.

The poverty rate adjusts for population change and is probably a better indicator of the effect of the economy on poverty.

As in the past, the poverty rate was significantly higher for certain subgroups of the population. Although the poverty rate was 15.2 percent for the total population, the rate was 35.7 percent for blacks, 22.1 percent for children, and 40.2 percent for persons in families with a female householder and no husband present. The poverty rate did not increase significantly between 1982 and 1983 for any of these subgroups.

Two major findings are discussed in the second report.

First, the trend in poverty during the 1979 to 1983 period is very similar, regardless of how poverty is measured. The trend lines for poverty using the three valuation methods—see attachment 4—show the same directional movement as the official poverty estimates based on money income alone.

Second, estimates of poverty including the value of noncash benefits are 7.9 percent to 32.9 percent lower than the official poverty estimates, depending on how the benefits are valued. The recipient value and poverty budget share value estimates are about the same, but both are higher than the market value. The market value estimate of poverty is lower mainly because it assigns a higher value to medical care benefits.

The valuation of noncash benefits lowers the poverty estimates by a greater extent for groups most likely to receive these benefits.

For example, applying the market value approach lowers the poverty rate from 15.2 percent to 10.2 percent for all persons, but from 35.7 to 21.2 percent for blacks, from 14.1 to 3.3 percent for the elderly, and from 40.2 to 24.7 percent for persons in female-maintained families.

Question 2A: What factors explain the steady increase in poverty?

The measurement of poverty is sensitive to changes in two primary and interrelated dimensions: First, money income; and second, the size and composition of the household.

Changes in a large number of economic and demographic factors which affect income and household composition can therefore result in changes in poverty. Any analysis that attempts to separate the causes and effects of the numerous factors affecting the poverty estimates would necessarily be highly imprecise, if not speculative.

The Census Bureau has insufficient resources to fully perform factual or descriptive analysis of the survey results. Even so, we have made some attempt. In this regard, let me offer the following observations:

The official poverty rate was 11.7 percent in 1979. Beginning in 1978, the poverty rate steadily increased through the recessionary period from 1980 to 1982. It began to flatten out between 1982 and 1983. Poverty normally increases during times of a weakened economy. Our microeconomic series show a steady state of deterioration during the 1980–82 recessionary period, as evidenced by the increase in poverty and decline in average family income. Macroeconomic series on employment, unemployment, and real earnings were all sluggish during the entire period.

One factor related to the lack of decline in poverty between 1982 and 1983 was a large increase in the categories of persons who have a relativey high incidence of poverty. These categories comprise persons in families maintained by women and unrelated individuals.

In 1983, the poverty rate for unrelated individuals was 23.4 percent and for persons in female householder families 40.2 percent compared to a rate of only 9.2 percent for persons in married couple and other families.

Question 2B: To what extent are poverty increases related to budget reductions and the decline in recent years in the real, after inflation, level of public assistance benefits?

We cannot separate the effects of changes in transfer programs from the effects of changes in the economy.

Since our data source, the Current Population Survey, is cross-sectional in nature, we cannot determine a given family's situation before and after changes in program regulations.

Moreover, we cannot determine program eligibility using the March Current Population Survey, which does not collect monthly or quarterly income or asset data. Most means-tested transfer programs use subannual income and asset limits for eligibility criteria. Such questions should be addressed to the Congressional Budget Office.

The primary Census Bureau role in this case should be to provide the relevant data and factual, empirical analysis. The Survey of Income and Program Participation series—see attachment 5—should eventually provide some relevant data, but no data are currently available. The first report in that series is due out in September of this year.

Question 3: What has been the impact of tax policy on disposable income of low-income families?

We have responded to data requests from this subcommittee concerning changes in the number of households below the poverty level paying taxes and changes in the proportion of income paid in taxes by these households. We have not specifically analyzed how changes in the disposable income of the poor were related to tax policy. These kinds of analyses should be carried out by experts on tax policy.

Question 4: To what extent would poverty decline if there were greater participation by eligible individuals and families in the AFDC, SSI, and Food Stamp Programs?

The Census Bureau does not now have the data nor the models needed to answer this question. In their absence, analysis of this question must be speculative. Such speculative analysis should be left to program experts; not the Census Bureau.

Question 5: What will be the effect of an improved economy on poverty?

The figures we have discussed so far reflect the situation in 1983, not the present nor the future. The economic recovery has continued through the first half of 1984 with economic growth much higher and the labor market stronger than in 1983.

If these rates continue and household composition is stable, and that is a key point, we may see a lowering of poverty in 1984, but it is impossible to say by how much.

Question 6: To what extent would particular policy changes in programs serving low income people reduce poverty?

This obviously would depend on the specific changes one had in mind. However, even if you were to outline specific changes such speculative questions should be addressed to program agencies and not the Census Bureau.

I have attempted to answer your six questions within the limitations of the Census Bureau's current work, knowledge, and capabilities as they relate to the poverty issue. Where those questions are outside our knowledge, I have not addressed them. I have especially not addressed questions that are the responsibility, if not the prerogative, of other Government agencies.

At this point what needs to be understood and underscored here are the recency and the complexity and the exploratory nature of much of the Census Bureau's work connected with the poverty issue. Certainly our work does not justify simple cause and effect answers because poverty's causes cannot be accurately identified in a methodologically defensible way.

Therefore, at this stage of the Census Bureau's developmental work on understanding income and poverty statistics, we simply, but categorically, state that our information is insufficient to provide a detailed and defensible description of what causes poverty.

I shall close by briefly profiling what we have done in just the last 4 months to help shed light on the poverty issue. We interviewed some 62,000 households covering every State in the Union. We processed all those responses and tabulated the data. We estimated the value of the noncash benefits using three different experimental methods, each applied to three benefit groupings. We did some descriptive analysis of the data and published the results.

This is the prime mission of the Bureau, to provide timely, accurate, and relevant information.

If we had done more analysis and thereby delayed our report, you and others concerned with this topic would not have had the information to formulate relevant questions and to do your own independent analyses. This is a longstanding Census Bureau policy and I am proud of it.

I would remind the members that I was confirmed as Director of the Census Bureau March 20 of this year. Therefore, I have much to learn about the programs and activities of the Bureau. For that reason and especially because of the highly detailed and technical nature of our discussion of this topic, I have with me Dr. Gordon Green. Dr. Green is our Assistant Chief of the Population Division in charge of economic statistics. He has the day-by-day oversight and supervisory responsibility for these reports and for the programs those reports address.

Together we invite your comments and questions.

[The attachments to the statement follow:]

ATTACHMENT 1

The results of the Decennial Census of Population and Housing are released as a series of reports. In 1980 there were three series titled, "1980 Census of Population and Housing," "1980 Census of Population," and "1980 Census of Housing." These reports present population and housing data for the nation as well as for small geographic areas.

In addition to the findings of the censuses the Bureau publishes current statistics on population estimates and characteristics in the "Current Population Reports" series. These reports provide up-to-date estimates from surveys on such varied topics as income, education, and migration.

The decennial census publications and the "Current Population Reports" are designed to provide the public with ready access to statistics about their country, or some smaller geographic area, in a timely fashion. The reports below differ in that the goal is to describe methodological studies and current research which are part of the Bureau's continuing effort to improve the quality of U.S. statistics.

The technical paper series provides a mechanism for the Bureau to report on the methodological procedural underpinnings of surveys like the Current Population Survey. This includes techniques for gathering, processing and publishing data as well as techniques concerned with the quality and accuracy of the data. Some historical data series have been published in this series, as well as exploratory methods for developing new statistics. The technical paper reports on the measurements of non-cash benefits are examples of such studies.

In a similar vein, the Survey of Income and Program Participation (SIPP) Working Paper Series is designed to encourage communication between the Bureau and its user community as part of a continuing effort to improve the usefulness of Bureau data. This series outlines work in progress at the Bureau. The purpose is to encourage others to comment on the Bureau's efforts, and provide users with the information necessary to plan their eventual use of these data. Statistics from SIPP will be published in the "Current Population Reports" series.

ATTACHMENT 2—DIRECTIVE NO. 14,[1] DEFINITION OF POVERTY FOR STATISTICAL PURPOSES

For the years 1959–1968 the statistics on poverty contained in the Census Bureau's "Current Population Reports," Series P–60, No. 68, shall be used by all executive departments and establishments for statistical purposes. For the years 1969 and thereafter, the statistics contained in subsequent applicable reports in this series shall be used.

A number of Federal agencies have been using statistical series on the number of persons and families in poverty, and their characteristics, in analytical and program planning work. The basis for these series has been the classification of income data collected by the Bureau of the Census in accordance with a definition of poverty developed by the Social Security Administration and revised by a Federal Interagency Committee in 1969. This definition provides a range of income cutoffs adjusted by such factors as family size, sex of family head, number of children under 18 years of age, and farm-nonfarm residences.

The Bureau of the Census series continues the Social Security Administration definition for the base year, 1963, except that the differential between poverty levels for farm and non-farm families is reduced from 30 percent to 15 percent. Annual adjustments in Census series are based on changes in the average annual total Consumer Price Index (CPI) instead of changes in the cost of the U.S. Department of Agriculture's Economy Food Plan.

The establishment of this standard data series does not preclude departments and agencies from more detailed analyses or from publication of tabulations for specialized needs although, where applicable, totals must agree with totals published by the Bureau of the Census. Other measures of poverty may be developed for particular research purposes, and published, so long as they are clearly distinguished from the standard data series.

The poverty levels used by the Bureau of the Census were developed as rough statistical measures to record changes in the number of persons and families in poverty and their characteristics, over time. While they have relevance to a concept of poverty, these levels were not developed for administrative use in any specific program and nothing in this Directive should be construed as requiring that they should be applied for such a purpose.

ATTACHMENT 3

In any sample of the population, there is always a possibility that an estimate derived from the sample could differ somewhat from that obtained in a complete census. Statisticians attempt to measure this sampling variability through the use of confidence intervals. The confidence interval describes a range around a particular sample estimate that would include a specified percentage of the estimates derived from all possible samples. For example, a 95-percent confidence level would indicate a high degree of reliability in that 95 out of 100 of all possible samples would yield an estimate in the specified range. The Census Bureau qualifies changes in estimates that fall within the 90 to 94 percent confidence level by saying that there was "some evidence" of a change.

ATTACHMENT 4—EXPLANATION OF VALUATION TECHNIQUES

The valuation of noncash benefits in this report is based on the three valuation methods presented in Technical Paper No. 50. Before examining each valuation technique in detail, it is useful to understand the major conceptual differences between them and their general relationship to one another. "Market value" is the estimated private market cost of the goods and services transferred to the recipient. "Recipient or cash equivalent value" is the estimated cash amount for which recipients would be willing to trade their right to the noncash benefit given their current incomes (including cash and the market value of any noncash benefits received). The "poverty budget share value" approach assigns a value to the benefit equal to the estimated amount by which the poverty threshold could be reduced for the family receiving the benefit. This reduction is equal to the average dollar amount of the good or service consumed by households with money income approximately

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[1] Directive No. 14 supersedes section 7(1) and Exhibit G of OMB Circular No. A–46 dated May 3, 1974.

equal to the poverty level. The value assigned by either of the latter two approaches cannot exceed the value assigned by the "market value" approach.

MARKET VALUE

The market value (MV) of an in-kind transfer is equal to the private market value of the benefits received by the individual. In the case of food stamps, the market value is directly measurable as the dollar value of food coupons. In other cases, MV is not so easily determined.

The market value of Medicaid and Medicare benefits were estimated by dividing total medical benefits paid by the programs by the number of persons covered. The calculations were carried out after persons were placed in various risk categories. For Medicare, the risk classes were (1) age 65 and over, and (2) blind and disabled. For Medicaid, the risk classes were; (1) age 65 and over, (2) blind and disabled, (3) age 21 to 64, nondisabled, and (4) age less than 21, nondisabled. The market value assigned varied by risk class, state of residence, and whether the value of benefits going to institutionalized persons was included with the value of benefits going to those not in institutions. For example, the market value of Medicaid benefits in 1983 was estimated to be $7,883 for a person 65 and over living in New York and counting the benefits going to the institutionalized. If the benefits going to the institutionalized were not counted, the estimated market value dropped to $3,222. For nondisabled persons under 21 living in New York, the estimated market value of Medicaid was $602 when benefits going to the institutionalized were included and $546 when they were not included.

In the case of public housing, the conceptual measure of MV was defined as the difference between the private market rental value of the unit and the rent paid by the tenants. Estimating MV for public housing is difficult because the private market rental value of public housing units is not available directly from surveys or other sources. Complex statistical procedures were used to link data from the Annual Housing Survey and the March CPS in order to arrive at estimates of MV for this benefit.

RECIPIENT OR CASH EQUIVALENT VALUE

The receipt of noncash benefits may distort consumption patterns, and, therefore, add less to a recipient's economic well-being than an equal dollar value cash transfer. If so, the benefits should be discounted from their market value to their recipient value to reflect this lower value. Recipient value (RV) theoretically reflects the program beneficiary's own valuation of the benefit. Theoretically, it would be measured by the amount of cash that would make the recipient feel just as well off as the noncash benefit. Many economists feel that, in theory, cash equivalent value is the proper measure for valuing noncash benefits to evaluate their effect on the economic well-being of the poor. Not all economists are in full agreement on this issue, however, since many earlier studies of the effect of noncash benefits on poverty have used MV. The Congressional Budget Office (1977) and Hoagland (1980) both used MV but included a statement that the cash value of noncash benefits to recipients may be less than the MV.

In theory, the recipient or cash equivalent value can be estimated by assigning a utility function [1] to all recipients. The cash equivalent measure is the amount of cash transfer that leaves the recipient at the same level of well-being or utility as the noncash transfers. Accurate estimates of cash equivalent value necessitate knowledge of all recipients' differing utility functions and the prices they pay. Because utility functions cannot be observed and measured with a high degree of accuracy, and because of difficulties with current consumption data, a simplified measure of recipient value was developed as a substitute.

The cash equivalent value estimates in this study are based on household survey data that allow the calculation of normal (average) expenditures at different income levels. These estimates were derived by assuming that the cash equivalent value of a noncash benefit is equal to the normal expenditure on that good or service by unsubsidized consumers with similar characteristics (e.g., income size, location, and age). Calculating cash equivalent value in this manner implicitly assumes that there is no difference between the comparable family and the recipient family. However, if both units are eligible for a given benefit and only one actually participates in the

[1] A utility function is an economic construct that indicates consumer's relative preferences for various goods and services depending on how consumers substitute these goods and services for one another.

program while the other (the comparison unit) does not, it may be incorrect to infer that the expenditures for the given good by the nonparticipant are equivalent to those of the participant if there was no program. This may result in selectivity bias, one of the limitations of the cash equivalent value approach.

If the recipient normally spends less than the MV of the noncash benefit on the subsidized good or service, the noncash benefit will cause a change in the expenditure pattern. This means that the noncash benefit is worth less to the individual than an equal amount of cash that would not lead to a change in spending habits. If the MV of the benefit exceeds the normal expenditure level, RV can be approximated by the level of normal expenditures. If normal expenditures exceed the MV of the benefit, RV is equal to MV. That is, because the noncash benefit recipient would normally spend at least as much as the MV on the good, it would not alter the normal expenditure pattern.

The estimates of RV's were based on data from several sources. The normal expenditures for food were computed using diary data from the new Consumer Expenditure Survey. Those for public housing were based on the complex linkage of March CPS and Annual Housing Survey data for 1979 and 1981. The data used to compute RV's for medical benefits are especially weak. They were derived from the 1972–1973 Consumer Expenditure Survey and required the inclusion of persons covered by Medicare and employer-provided health insurance. More details on these problems can be found in Appendix B and Technical Paper No. 50.

POVERTY BUDGET SHARE VALUE

The third valuation method in this study was poverty budget share (PBS). The PBS approach is a different type of valuation technique that links the value of noncash benefits directly to the current concept of poverty. PBS is not strictly a measure of the value of noncash benefits but rather, it is a method for dealing with such benefits in the determination of a person's poverty status. The poverty thresholds can be thought of as the amount of money which, if spent wisely, will be sufficient to meet the basic needs of a family or single person. The amount of money needed to meet their needs will be reduced if some of the needs are met by noncash benefits. For example, if a low-income person participates in the Medicaid program, then PBS assumes that at least some of his or her medical needs are being met and the amount of money required to achieve a basic standard of living is reduced. The amount that the money poverty thresholds would be reduced would be no more than that implied by observed consumption levels for people near the poverty level who were not receiving such benefits. This assumption does not presume that benefits above this amount have no worth to the individual; it merely presumes that recipients have little ability to use excess amounts of one noncash benefit to meet different types of need. To assign a substantially larger value to a particular benefit would require the assumption that recipients can make such substitutions to a significant extent.

Derivation of PBS values were based on data from the Annual Housing Survey and the 1960–61 Consumer Expenditure Survey. Because the poverty levels were developed assuming one-third of income is spent on food, the PBS value limits on food were set at one-third of the poverty levels. The PBS value limits for housing were obtained from the Annual Housing Surveys for 1979 and 1981 by computing the average proportions of income spent on housing by families with incomes near the poverty level not residing in public housing. Values for medical benefits were estimated based on the 1960–61 Consumer Expenditure Survey. Poverty levels were multiplied by the proportions of income spent on medical care during the 1960–61 period to arrive at the PBS limits.

ATTACHMENT 5—THE SURVEY OF INCOME AND PROGRAM PARTICIPATION

INTRODUCTION

In October 1983, the Bureau of the Census conducted the first interviews of the Survey of Income and Program Participation (SIPP). The SIPP is a nationally representative household survey intended to provide detailed information on all sources of cash and noncash income, eligibility and participation in various government transfer programs, disability, labor force status, assets and liabilities, pension coverage, taxes, and many other items. Data from the survey will provide a multiyear perspective on changes in income, and their relationship to participation in government programs, changes in household composition, and so forth. In general, the SIPP data system is designed to directly measure elements of the tax and transfer

system in a comprehensive data base. The purpose of this paper is to review the need for a new survey, briefly describe the research and development work leading up to the SIPP, the survey design features, procedures, and content of the survey. Data products and current survey and research activities will also be described.

THE NEED FOR A NEW SURVEY

The development of SIPP arose in response to a recognition that the principal source of information on the distribution of household and personal income in the United States, the March income Supplement of the Current Population Survey (CPS), had severe limitations which could only be rectified by making substantial changes in the survey instrument and procedures. As a consequence, analysts have identified several flaws in the CPS income data. For example, the CPS: (1) Measures annual income but does not collect tax filing status, liabilities, and deductions; (2) does not measure monthly income flows and month-to-month changes; (3) provides annual income estimates, whereas eligibility for most Federal programs is based on a monthly accounting period; and (4) produces estimates of last year's income based on current household membership, ignoring moves and changes in household composition during the year.

Deficiencies in the CPS became especially serious during the 1960's and early 1970's when many public assistance programs were expanded and reorganized. As a result, analysts required more detailed data as well as improved measures of cash and noncash income. In this environment the Survey of Income Survey Development Program (ISDP) began. The purpose of the ISDP, authorized in 1975, was to design and prepare for a major new survey, the Survey of Income and Program Participation (SIPP). The development effort was directed by the Office of the Assistant Secretary for Planning and Evaluation in the Department of Health and Human Services and was carried out jointly with the Bureau of the Census and the Social Security Administration (SSA).

The ISDP developed methods intended to overcome the three principal shortcomings of the CPS: (1) the underreporting of property income and other irregular sources of income; (2) the underreporting and misclassification of participation in major income security programs and other types of information that people generally find difficult to report accurately (for example, monthly detail on income earned during the year); and (3) the lack of information necessary to analyze program participation and eligibility.

Many characteristics of the ISDP are reflect in the SIPP design, including the survey design, content, and questionnaire format.

SIPP DESIGN FEATURES

SIPP started in October 1983 as an ongoing survey program of the Bureau of the Census with one sample panel of approximately 26,000 "designated" households in 174 primary sample units (PSU's) selected to represent the noninstitutional population of the United States. The actual sample size was somewhat smaller (about 21,000 households) because some of the selected households were unoccupied, demolished, converted for nonresidential use, or occupied by persons not eligible for interview, such as persons maintaining a usual residence elsewhere. The sample design is self-weighting; that is, each unit selected in the sample has the same probability of selection.

Each household is interviewed once every 4 months for 2½ years to produce sufficient data for longitudinal analyses while providing a relatively short recall period for reporting monthly income. The reference period for the principal survey items is the 4 months preceding the interview. For example, in October, the reference period is June through September; when the household is interviewed again in February, it is October through January. This interviewing plan will result in eight interviews per household.

In January 1985 and every January thereafter, a new, slightly smaller panel will be introduced. (Figure 1 illustrates the plan for implementing sample panels in 1984 through 1987.) This design will allow cross-sectional estimates to be produced from a combined sample of approximately 35,000 households. The overlapping panel design will also enhance the estimates of change, particularly year-to-year change. Since portions of the sample are the same from one year to the next, year-to-year change estimates can be based in part on a direct comparison across 2 years for the same group of households. This design will give a more precise estimate of change than a similar comparison involving two different groups of households in which greater sampling variability obscures the actual change.

Finally, to facilitate field operations, each sample panel is divided into four approximately equal subsamples, called rotation groups; one rotation group will be interviewed in a given month. Thus, one cycle or "wave" of interviewing takes 4 consecutive months. This design creates manageable interviewing and processing workloads each month instead of one large workload every 4 months; however, it results in each rotation group using a different reference period. Figure 2 provides an illustration of the relationship between waves, rotation groups, interview months, and reference periods after the sample is fully operational in 1985.

To recap, the panels are the most important feature of the SIPP design—a new panel is initiated each year in January with a sample size of about 20,000 households. There are also waves or interviews in each panel. Each panel, other than the 1984 which is idiosyncratic, consists of eight waves of interviews. Finally, there are rotation groups within each wave. Four rotation groups comprise a wave, each consisting of approximately one-fourth of the total sample, that is interviewed each month. Since the reference period is the 4 months prior to the interview, one should notice that each rotation group has a different reference period.

SIPP COLLECTION PROCEDURES

Data collection operations are managed through the Census Bureau's 12 permanent regional offices. Interviewers assigned to these offices conduct one personal visit interview with each sampled household every 4 months. At the time of the interviewer's visit, each person 15 years old or older who is present is asked to provide information about himself/herself; a proxy respondent is asked to provide information for those who are not available. Telephone interviewing is permitted only to obtain missing information or to interview persons who will not or cannot participate otherwise.

The average length of the interview is about 30 minutes. An important design feature of SIPP is that all persons in a sampled household at the time of the first interview remain in the sample even if they move to a new address during the next 2½ years. For cost and operational reasons, person-visit interviews are only conducted at new addresses that are in or within 100 miles of a SIPP primary sampling unit. After the first interview, the SIPP sample is a personbased sample, consisting of all individuals who are living in the sample unit at the time of the Wave 1 interview. Individuals aged 15 and over who subsequently share living quarters with the original sample people will also be interviewed in order to provide the overall economic context of the original sample persons. Changes in household composition caused by persons who join or leave the household after the first interview are also recorded. These individuals are interviewed as long as they reside with an original sample person.

Another important feature of SIPP is the identification numbering system. The ID is intented to provide a means of linking information about an individual across time and uniquely identifying which household each person is a member of at any point in the panel. Through the ID system, we expect to link data from all persons ever associated with a given household throughout the 2½-year duration of a panel.

SIPP CONTENT: CONTROL CARD

The control card is used to obtain and maintain information on the basic characteristics associated with households and persons and to record information for operational control purposes. Characteristics recorded on the control card by the interviewer include the age, race, ethnic origin, sex, marital status, and educational level of each member of the household, as well as information on the housing unit and the relationship of the householder to other members. A household respondent provides this information, which is updated as appropriate, at each interview. The control card is also used to keep track of when and why persons enter and leave the household, thereby providing enough information to automatically create monthly household and family groups.

SIPP CONTENT: CORE DATA

The content of SIPP was developed around a "core" of labor force and income questions designed to measure the economic situation of persons in the United States. These questions expand the data currently available on the distribution of cash and noncash income and are repeated at *each* interviewing wave. SIPP core data build an income profile of each person aged 15 and over in a sample household. The profile is developed by determining the labor force participation status of each person in the sample and asking specific questions about the types of income re-

ceived, including transfer payments and noncash benefits from various programs for *each* month of the reference period. A few questions on private health insurance coverage are also included in the core.

Persons employed at anytime during the 4-month reference period are asked to report on jobs held or businesses owned, number of hours and weeks worked, hourly rate of pay, amount of earnings received, and weeks without a job or business.

The core also includes questions related to nearly 50 other types of income. Questions are asked about the receipt of government transfer payments from retirement, disability, unemployment benefits, and welfare programs such as food stamps and Aid to Families with Dependent Children (AFDC). Information on the receipt of noncash benefits from programs such as Medicare and Medicaid is also obtained. Other income questions in the core relate to private transfers such as pensions from employers, alimony, and child support. For certain income types, such as food stamps and AFDC, questions are included which help to identify the household members covered by the payment, thus allowing the proper construction of program analysis units.

Finally, the core data also includes questions on the ownership of assets which produce income, such as savings accounts, money market accounts, NOW accounts, stocks, mutual fund shares, and rental property. The amounts of income received from these income producing assets are also obtained, as well as indications of joint holdings and estimates of account balances if the amount of interest is not known. A list of income and asset types collected in the SIPP is provided in figure 3.

SIPP CONTENT: FIXED TOPICAL MODULES

The core data provide information on a continuing basis about levels of economic well-being and changes in these levels over time. These data, while extremely detailed, allow analyses of well-being which only account for income and demographic variables. The SIPP has been designed to provide a broader context for analysis by adding questions on a variety of topics not covered in the core section. These questions are labelled "fixed topical modules" and are assigned to particular interviewing waves of the survey. If more than one observation is needed, questions on one wave may be repeated on a later wave.

The administration of these modules of questions is made possible by the fact that less time is required to update the core information collected in the first interview. For example, the third SIPP interview questionnaire collects information on health and disability, and education and work history. The fourth interview contains topical data on assets and liabilities, retirement and pension coverage, and housing conditions/energy usage.

A module of questions on tax-related information will be fielded in the sixth interview. Information on filing status and taxes paid (income, property, and social security (FICA) taxes) will be obtained to allow the estimation of tax incidence, disposable income, and the simulation of tax policy alternatives. In addition to tax-related matters, an annual "round-up" module will be administered to obtain wage and salary data from W–2 forms and estimates of annual self-employment and property income for each appropriate person.

Other fixed topical modules which will be administered in only one wave of the survey include: (1) educational enrollment; and (2) marital history, fertility, and migration. A schedule for implementation of the topical modules is given in figure 4.

SIPP CONTENT: VARIABLE TOPICAL MODULES

In response to program planning and policy analysis data requirements, the final component of the SIPP content consists of modules of questions designed in consultation with other Federal agencies. These modules will not be a recurring feature of each SIPP panel. Question modules have been identified for the first SIPP panel and the first year of the second panel; their schedule for implementation is given in figure 4.

Brief descriptions of several of these variable topical modules will indicate the breadth of information collected. For example, in the fourth interview a retirement and pension module will contain questions on coverage and vested rights in retirement and pension plans.

Another topical module in the fourth interview will collect characteristics of households that affect energy usage. These data will help provide a better estimate of income remaining after all housing needs are met and fulfill a need for information concerning energy usage, as well as provide information to allow the simulation and analysis of individuals and households qualifying for energy assistance programs.

In the fifth interview, a child care topical module has been developed to obtain information about child care arrangements, such as who provides the care, the number of hours of care per week, where the care is provided, and the cost of the care. These data will be useful because child care expenses are a major part of work-related expenses and are frequently deductible for program eligibility purposes.

In the same interview, questions on welfare history and child support will help determine the length of time persons receive aid from specific welfare programs, as well as provide information on child support agreements. The data from the welfare history questions will measure the extent to which persons and households have been dependent upon government transfer programs. Questions concerning child support will measure the degree to which the failure of the father to provide child care affects the likelihood of the mother and children's participation in government transfer programs.

As can be seen, a wide variety of topics are covered under the aegis of the variable topical module concept. The breadth of these data in combination with the income and asset information and the fact that the data requirements of these modules arose from specific policy requirements ensure that SIPP will be a widely used and powerful data base serving multiple purposes.

SIPP DATA PRODUCTS

A number of publications and public-use data files will be generated from the information collected in SIPP. Both publications and data files are identified by whether they are cross-sectional or longitudinal. Two types of cross-sectional reports are planned by the Census Bureau: 1) a set of quarterly and annual reports that will focus on core information; 2) a set of periodic or single-time reports that will use the detailed data from the topical modules.

The quarterly cross-sectional reports will provide average values for a variety of labor force, income, and household composition measures based on monthly averages. The first quarterly report will be issued in September 1984 and will contain income and labor force data for the Nation referring to the third quarter of 1983. The annual reports will be similar in content, but will show values averaged across 12 months rather than 3 months. The periodic and single-time reports will use the detailed data from the topical modules to examine issues related to income and program participation. These reports may also focus solely on the material covered in a topical module such as work history or migration.

Plans for longitudinal data reports are under discussion, but they are expected to concentrate on data that can be used to examine trends and changes over time. Six kinds of reports have been proposed for consideration (McMillen and Kasprzyk (1984)): (1) Economic profile reports, presenting yearly aggregates of monthly data on individuals—reporting household and family information as characteristics of individuals; (2) comparative profile reports, presenting comparisons of yearly aggregates of monthly data on individuals; (3) transition reports, providing changes in income and program participation status between two points in time; (4) multiple transition reports, providing patterns of labor force, income, and program participation activity, and the number of spells or experiences in a given state as well as the duration of those spells; (5) longitudinal family and unrelated individual reports, presenting the characteristics of longitudinal family units defined in SIPP (see McMillen and Herriot (1984) for more information on this topic); and (6) special event reports, providing data related to a unique event, such as marriage, divorce, separation, the birth of a child, a return to school, or a move to a new address; these reports could also use multiwave core data combined with topical module data such as wealth or work history.

SIPP cross-sectional data files will be issued on a wave-by-wave basis. Each file will include person, family, and household information collected in the survey wave. Almost all data obtained as the questionnaire will be included on the files; certain summary income recodes will also be included. Data that might disclose the identity of a person will be excluded or recoded in accordance with standard Census Bureau confidentially restrictions. Wave files will be edited, imputed, and weighted in a manner consistent with their use for cross-sectional analysis. A unique identification number will be included to allow users to merge two or more SIPP files. However, since the processing of wave files is independent, wave-to-wave data inconsistencies will occur and the user must be prepared to resolve them. The first SIPP cross-sectional file (Wave 1) will be released in September 1984.

Plans for producing public-use files designed for longitudinal analysis are less well-defined at this time. The basic longitudinal file, however, for SIPP is a calen-

dar-year file of core income data; that is, the data times on the file will be monthly observations for 12 months of the calendar year for each person in the sample. Thus, the first of the series should be a calendar-year (CY) 1984 file from the 1984 Panel.

SIPP UNIT NONRESPONSE RATES

The first SIPP interviews were conducted in October 1983. At this time, cross-sectional unit noninterview rates are available for the first two waves of SIPP. Unit noninterview rates (type A rate) provide a measure of the success/failure of the SIPP field work. While refusals are the largest part of type A rate, it also includes "no one home" and "temporarily absent" households. Figure 5 provides an overall look at these rates. In Wave 1 (all rotation groups), the mean type A rate was 4.8 percent; in Wave 2, 3.7 percent. These rates are an improvement on the rates experienced in the Income Survey Development Program and are comparable to the rates obtained by the Current Population Survey.

SIPP RESEARCH

Interruption's in the funding support for SIPP in 1982 resulted in a cessation of the analysis associated with the pilot surveys of the development program leaving many problems unresolved. As a result, the Census Bureau has been particularly eager to initiate research in a number of important areas.

During 1984 research has begun on the following topics: (1) improving access to SIPP data: (2) conceptualizing definitions of household and family over time; (3) developing longitudinal estimation methods; (4) investigating longitudinal imputation strategies; (5) developing research plans for the combined use of survey and administrative data in the SIPP; (6) investigating panel surveys as a source of migration data; (7) investigating data quality problems in the ISDP as they pertain to wave-to-wave changes in program receipt; (8) investigating the use of subsampling methods for improving the reliability of subpopulation samples; (9) investigating ways to improve the quality of longitudinal data through a feedback and reconciliation system; and (10) expanding the scope of the American Statistical Association-Census Bureau Research Fellow Program to include SIPP-related research activities.

Preliminary results on many of these topics will be presented at the meetings of the American Statistical Association and the papers are cited in the bibliography.

Figure 1. SIPP Interview Schedule

SIPP INTERVIEW SCHEDULE

MONTH YEAR	1984	1985	1986	1986	ASSIGNED CASES APPX	DATA MONTHS
OCT 83	I				6450	JUNE-SEPT
NOV	I				6450	JUL-OCT
DEC	I				6450	AUG-NOV
JAN 84	I				6450	SEPT-DEC
FEB	U1				5150	OCT-JAN, 1984
MAR	U1				5150	NOV-FEB
APR	U1				5150	DEC-MAR
MAY	U1 P2				5150	JAN-APR
JUN	U2 P2				5150	FEB-MAY
JUL	U2 P2				5150	MAR-JUNE
AUG	U2 P2				5150	APR-JULY
SEP	U2 W1				5150	MAY-AUG
OCT	U3 W1				5150	JUNE-SEPT
NOV	U3 W1				5150	JULY-OCT
DEC	U3 W1				5150	AUG-NOV
JAN 85	U3 VT	I			10600	SEPT-DEC
FEB	U4 VT	I			10600	OCT-JAN, 1985
MAR	U4 VT	I			10600	NOV-FEB
APR	U4 VT	I			10600	DEC-MAR
MAY	U4 R1	U1			9550	JAN-APR
JUN	U5 R1	U1			9550	FEB-MAY
JUL	U5 R1	U1			9550	MAR-JULY
AUG	U5 R1	U1			9550	APR-JULY
SEP	U5 W2	U2 W1			9550	MAY-AUG
OCT	U6 W2	U2 W1			9550	JUNE-SEP
NOV	U6 W2	U2 W1			9550	JULY-OCT
DEC	U6 W2	U2 W1			9550	AUG-NOV
JAN 86	U6 P1	U3 P1	I		15000	SEPT-OCT
FEB	U7 P1	U3 P1	I		15000	OCT-JAN, 1986
MAR	U7 P1	U2 P1	I		15000	NOV-FEB
APR	U7 P1	U3 P1	I		15000	DEC-MAR
MAY	U7 R2	U4 R1	U1 TM		13950	JAN-APR
JUN	U8 R2	U4 R1	U1 TM		13950	FEB-MAY
JUL	U8 R2	U4 R1	U1 TM		13950	MAR-JUNE
AUG	U8 R2	U4 R1	U1 TM		13950	APR-JULY
SEP		U5 W2	U2 W1		8800	MAY-AUG
OCT		U5 W2	U2 W1		8800	JUNE-SEP
NOV		U5 W2	U2 W1		8800	JULY-OCT
DEC		U5 W2	U2 W1		8800	AUG-NOV
JAN 87		U6 P2	U3 P2	I	14250	SEPT-DEC
FEB		U6 P2	U3 P2	I	14250	OCT-JAN, 1987
MAR		U6 P2	U3 P2	I	14250	NOV-FEB
APR		U6 P2	U3 P2	I	14250	DEC-MAR
MAY		U7 R2	U4 R1	U1 TM	13200	JAN-APR
JUN		U7 R2	U4 R1	U1 TM	13200	FEB-MAY
JUL		U7 R2	U4 R1	U1 TM	13200	MAR-JUNE
AUG		U7 R2	U4 R1	U1 TM	13200	APR-JULY
SEP			U5 W2	U2 W1	8800	MAY-AUG
OCT			U5 W2	U2 W1	8800	JUN-SEPT
NOV			U5 W2	U2 W1	8800	JULY-OCT
DEC			U5 W2	U2 W1	8800	AUG-NOV

I - Initial interview

U - Update/number

P1 - Personal history (1) (Marital history, fertility, migration)

P2 - Personal history (2) (Health and disability, work history, education history)

W1 - Assets and wealth

W2 - Assets and wealth update

VT - Variable topical module- child care, duration of welfare

TM - Unassigned topical module

R1 - First annual roundup (Annual roundup - annual income, taxes, educational enrollment)

R2 - Second annual roundup (Annual roundup - annual income, taxes, educational enrollment)

Figure 2. SIPP Interview Months and Reference Periods

Wave	Rotation Group	Interview Month	Reference Periods																						
							1st Qtr Date			2nd Qtr Date			3rd Qtr Date			4th Qtr Date									
1	1	JAN	SEP	OCT	NOV	DEC																			
	2	FEB		OCT	NOV	DEC	JAN																		
	3	MAR			NOV	DEC	JAN	FEB																	
	4	APR				DEC	JAN	FEB	MAR																
2	1	MAY					JAN	FEB	MAR	APR															
	2	JUN						FEB	MAR	APR	MAY														
	3	JUL							MAR	APR	MAY	JUN													
	4	AUG								APR	MAY	JUN	JUL												
3	1	SEP									MAY	JUN	JUL	AUG											
	2	OCT										JUN	JUL	AUG	SEP										
	3	NOV											JUL	AUG	SEP	OCT									
	4	DEC												AUG	SEP	OCT	NOV								
4	1	JAN													SEP	OCT	NOV	DEC							
	2	FEB														OCT	NOV	DEC	JAN						
	3	MAR															NOV	DEC	JAN	FEB					
	4	APR																DEC	JAN	FEB	MAR				
	1	MAY																	JAN	FEB	MAR	APR			

Figure 3. SIPP Income and Asset List

INCOME LIST Type	ASSET LIST Type
Social Security	Regular/Passbook Savings Accounts in a Bank, Savings and Loan or Credit Union
U.S. Government Railroad Retirement Pay	Money Market Deposit Accounts
Federal Supplemental Security Income (SSI)	Certificates of Deposit or Other Savings Certificates
State Supplemental Security Income (State Administered SSI Only)	NOW, Super NOW, or Other Interest-Earning Checking Accounts
State Unemployment Compensation	Money Market Funds
Supplemental Unemployment Benefits	U.S. Government Securities
Other Unemployment Compensation (Trade Adjustment Act Benefits, Strike Pay, Other)	Municipal or Corporate Bonds
Veterans Compensation or Pension	Other Interest-Earning Assets
Black Lung Payments	Stocks or Mutual Funds Shares
Worker's Compensation	Rental Property
State Temporary Sickness or Disability Benefits	Mortgages
Employer or Union Temporary Sickness Policy	Royalties
Payments from a Sickness, Accident, or Disability	Other Financial Investments
Insurance Policy Purchased on Your Own	
Aid to Families with Dependent Children (AFDC, ADC)	
General Assistance or General Relief	
Indian, Cuban, or Refugee Assistance	
Foster Child Care Payments	
Other Welfare	
WIC (Women, Infants, and Children Nutrition Program)	
Food Stamps	
Child Support Payments	
Alimony Payments	
Pension from Company or Union	
Federal Civil Service or Other Federal Civilian Employee Pensions	
U.S. Military Retirement Pay	
National Guard or Reserve Forces Retirement	
State Government Pensions	
Local Government Pensions	
Income from Paid-Up Life Insurance Policies or Annuities	
Estates and Trusts	
Other Payments for Retirement, Disability, or Survivor	
G.I. Bill/VEAP Education Benefits	
Income Assistance from a Charitable Group	
Money from Relatives or Friends	
Lump Sum Payments	
Income from Roomers or Boarders	
National Guard or Reserve Pay	
Incidental or Casual Earnings	
Other Cash Income Not Included Elsewhere	

Figure 4. Survey of Income and Program Participation - Topical Module Schedule

INTERVIEW DATES	1984 Panel			1985 Panel		
	Wave	Fixed Topical Module	Variable Topical Module	Wave	Fixed Topical Module	Variable Topical Module
Oct. 83-Jan. 84	1	None	None			
Feb. 84-Apr. 84	2	None	None			
Mar. 84-Aug. 84	3	Health and Disability Work History Education History	Health Care Utilization and Planning Social Serivces in Kind-Health Social Services in Kind-Training			
Sept. 84-Dec. 84	4	Assets Liabilities	Pension and Retirement Issues Housing Conditions and Cost Energy Usage			
Jan. 85-Apr. 85	5		Child Care Arrangements and Planning Duration of Welfare Support for Non-Household Members Social Services in Kind-Child Care & Other Reasons for Not Working-Reservation Wage Work Related Expenses	1	None	None
May 85-Aug. 85	6	Annual Income Taxes Employee Benefits Education Enrollment	Educational Financing Training Questions (ETA)	2	Education Enrollment	Educational Financing Training Questions (ETA)
Sept. 85-Dec. 85	7	Assets Liabilities	Housing Conditions & Cost Neighborhood Conditions Energy Usage	3	Assets Liabilities	Housing Conditions & Cost Neighborhood Conditions Energy Usage
Jan. 86-Apr. 86	8	Marital History Fertility Migration	Support for Non-Household Members Reasons for Not Working-Reservation Wage	4	Marital History Fertility Migration	Support for Non-Household Members Reasons for Not Working-Reservation Wage
May 86 Aug. 86	9	Annual Income Taxes Employee Benefits Educational Enrollment	Educational Financing Health and Disability Work Related Expenses Retirement Plans and Expectations Training Questions (ETA)	5	Annual Income Taxes Employee Benefits Educational Encollment	Educational Financing Health and Disability Work Related Expenses Training Questions (ETA)
Sept. 86-Dec. 86				6	Assets Liabilities	Open
Jan. 87-Apr. 87				7	Health and Disability Work History Education History	Open
May 87-Aug. 87				8	Annual Income Taxes Employee Benefits Education Enrollment	Educational Financing Training Questions (ETA)

Figure 5. SIPP Noninterview Data: Wave 1 and 2

WAVE 1

	Rotation 1	Rotation 2	Rotation 3	Rotation 4	Total Wave 1
Total Sample Size	6,465	6,420	6,403	6,626	25,914
Type B Noninterview	825 (12.8%)	832 (13.0%)	791 (12.4%)	904 (13.6%)	3,352 (12.9%)
Type C-W1 Noninterview	392 (6.1%)	393 (6.1%)	415 (6.5%)	443 (6.7%)	1,643 (6.3%)
Net Eligible for Interview	5,248	5,195	5,197	5,279	20,919
Type A Noninterview Total	267 (5.1%)	222 (4.3%)	272 (5.2%)	253 (4.8%)	1,014 (4.8%)
Refusal	194 (3.7%)	182 (2.5%)	197 (3.8%)	201 (3.8%)	774 (3.7%)
Other	73 (1.4%)	40 (.8%)	75 (1.4%)	52 (1.0%)	240 (1.1%)
Completed Interview	4,981	4,973	4,925	5,026	19,905

WAVE 2

	Rotation 1	Rotation 2	Rotation 3	Total Wave 2
Workload	5,120	5,144	5,116	15,380
Type C-W2 Noninterview	28 (.5%)	46 (.9%)	41 (.8%)	115 (.7%)
Type D Noninterview	57 (1.2%)	37 (.7%)	52 (1.0%)	146 (.9%)
Type A Noninterview Total	195 (3.9%)	185 (3.7%)	185 (3.7%)	565 (3.7%)
Refusal	157 (3.1%)	147 (2.9%)	160 (3.2%)	464 (3.1%)
Other	38 (.8%)	38 (.8%)	25 (.4%)	101 (.6%)
Completed Interview	4,840	4,876	4,838	14,554

Type A - Noninterview
- Refusal
- No one home
- Temporarily absent
- Unable to locate
- Other - Specify

Type B - Noninterview
- Vacant
- Occupied by persons with URE
- Unfit or to be demolished
- Under construction, not ready
- Converted to temporary business or storage
- Unoccupied tent site or trailer site
- Permit granted, construction not started
- Other - Specify

Type C-W1 Noninterview
- Demolished
- House or trailer moved
- Converted to permanent business or storage
- Merged
- Condemned
- Other - Specify

Type C-W2 Noninterview
- Entire household out-of-scope (For example: entire household deceased, institutionalized, etc.)

Type D - Noninterview
- Moved, address unknown
- Moved within country beyond limit

$$\text{Type A Noninterview Rate} = \frac{\text{Type A Noninterviews}}{\text{Interviews} + \text{Type A Noninterview}}$$

$$\text{Type B Noninterview Rate} = \frac{\text{Type B Noninterviews}}{\text{Work Load}}$$

$$\text{Type C Noninterview Rate} = \frac{\text{Type C Noninterviews}}{\text{Work Load}}$$

$$\text{Type D Noninterview Rate} = \frac{\text{Type D Noninterviews}}{\text{Work Load}}$$

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Chairman RANGEL. Thank you very much.

Could you restate briefly why Members of Congress get a lower priority than members of the press in terms of reports?

Mr. KEANE. We do release about 250 reports a year and we have what is called a sensitive economic statistics report series and that comes under a special kind of release program whereby the press is briefed before anybody else.

In this instance, as I understand it, the reason that we went to this kind of a release procedure is because this is such a technical report.

As you heard in my comments, the methods are highly experimental. As we get into this, you will understand how technical and difficult it is to understand.

For that reason we thought that the press would need the time to understand the nature and content of the report, and, as we view the press, it is the press' obligation, responsibility to brief the public on such matters.

Chairman RANGEL. Let me try to rephrase this question because I don't think you intend for your answer to come out the way it is perceived.

Now, the press has an obligation to educate the public. We in the Congress have an obligation to make certain that the laws are enforced, and that the agencies supported by the taxpayers are doing their job.

It is complex, but I do not think that you are saying that the press has a better ability to understand the complex nature of your facts than the Speaker of the House, the 435 Members, the standing committees, the subcommittees, and their staffs. That is not what you are saying?

Mr. KEANE. I am not saying that. That is right.

Chairman RANGEL. OK. Since you are not saying that, explain why a priority would be given to members of the press rather than Members of the U.S. Congress and their leadership?

Mr. KEANE. One of the reasons is that this is consistent with how we have done sensitive report releases in the past.

Chairman RANGEL. I am only asking, sir, and I have to move on to the substance, as to what is the basis for this type of logic. That is all.

If you have done it in the past, you have. I didn't believe that this type of thing could happen to us, but when I asked about it, you said it is policy.

Now I am asking you or your staff member what is the basis of the policy? Lack of trust of Members of Congress? Have you given us embargoes, or should we come into a room and be briefed privately?

I yield to those who have been with the Census before you.

Mr. GREEN. Mr. Chairman, the intent of the embargo is to give the members of the press an opportunity to write a story on a very highly technical and complex topic.

Chairman RANGEL. That I can understand. I am talking about Members of Congress that would like to understand Government reports and it appears to me that you say that the press needs a little extra time to spoonfeed this to their editors, and to write a proper story. I have no problem with that.

I am asking why Members of Congress are excluded from published Government reports. This is not a private agency that can decide how it wants to treat its press releases.

This is a separate but equal part of Government. We are the ones that give you the appropriation, not the press. We just want to know what is the policy in this complex area? We also want to make certain that before we issue a general press release ourselves we want the press to understand it. There is no problem with the policy of briefing the press.

But, why are we precluded from receiving a Government report?

Mr. KEANE. It seems like it may be more practice than policy.

Frankly, I had some bother, and I still am not an expert on all the release procedures, because this is such a routine thing of releasing 250 reports a year; economically sensitive statistics, such as GNP data, just go out and I had no idea that there was a problem. I am surprised that it has developed.

Chairman RANGEL. We are a very important part of the Government. We receive intelligence and defense reports. Our integrity, loyalty, patriotism has never been attacked by this administration, even though some believe we are so far to the left that we are falling off the continent, but nevertheless, we do have a good rapport with the American public.

We would hope you would share information with us prior to the time that you share it with the press.

Mr. KEANE. May I ask you a question, because you could help us. We are reviewing our policy. Who should get the reports of this kind first?

Chairman RANGEL. The first thing I can tell you, if you start with the Speaker, you are not making any mistakes.

Mr. KEANE. Congress should get the report first, would that be a fair conclusion?

Chairman RANGEL. I am saying that it makes a heck of a lot of sense, when a Member of Congress asks for a Federal report, that you provide him with the report, unless there is good security reasons why that Member should not receive it, and you should state those reasons.

Reasons why there is good cause to have a lack of trust for Members of the House of Representatives, should be shared. I understand some staff members asked whether or not Members could receive the report, if, in fact, they embargoed themselves.

Well, they didn't check with me, but I understood that even if the Member—I have never taken an oath of embargo—did this, your office said they couldn't receive it anyway.

Are you familiar with that? Are you familiar with these requests that they were coming to your office?

Mr. KEANE. Yes.

Chairman RANGEL. Were you familiar with some of the Members—not me—said they would be sworn by an embargo, that they would hold themselves responsible for the embargo?

Mr. KEANE. I knew there was an embargo on for both the press——

Chairman RANGEL. Members never got under the embargo law, because they were not allowed to be embargoed with the press, and you understand that, too?

Mr. KEANE. Yes.

Chairman RANGEL. I don't understand it, and I am not trying to embarrass you. All I am asking is, find out why we have the policy, and let's talk about it. Because if the policy is that you are afraid that a Member is going to have a press conference, or that we are not going to be prepared when you release it to the press, or you don't want us prepared, I don't know what your reasons are, but facts are facts.

There are different interpretations you can put on the facts, and I am asking, not that Democrats get it, but that Members of the House get it.

I yield to the nonpartisan Member.

Mr. CAMPBELL. I have a question on the law, just for what it is, not to get into this.

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If a Member received a report from somebody in the media and then held a press conference on it, would that mean that the person in the media had violated the embargo?

Mr. KEANE. That gets to be a matter of interpretation. To me, it would.

Mr. CAMPBELL. Perhaps you ought to make that a little clearer.

Chairman RANGEL. You cleared it up.

Thank you.

Mr. KEANE. I don't know that that would violate the letter of it, but certainly the spirit, it seems to me.

Chairman RANGEL. I am talking about the policy and the regulations.

Mr. KEANE. Would you suggest all Members of Congress get it at the same time, there be no preferential treatment?

Chairman RANGEL. No matter what rank we hold, we only have one vote. We are not asking for preferential treatment for Members by party, or by their positions within the House of Representatives.

What I am basically asking for is that we treat it with the same amount of respect as obviously you feel for members of the working press. That is all I am saying.

You have some concern. I don't understand the reasons for your question, "Who get it first or should we all get it at the same time?"

Obviously, you have some concerns, and you can ask them, and I will try to answer. But I want to let you know that I don't have a hidden agenda and I am not distinguishing between Democratic Members and other Members.

It seems clear that if you are going to issue a report, do not tell Members that they can get it after the press has been briefed. To me, that doesn't make a lot of sense.

Mr. KEANE. You would not distinguish then, I take it, Oversight Committee members versus non-Oversight Committee members, they all would get it at the same time?

Chairman RANGEL. It never entered my mind that you would give preferential treatment to the members of the awesome and powerful Ways and Means Committee.

I would think, if you want to get political about it, you give it to the Appropriations Committee that funds your agency, but no, as far as I am concerned, when the Speaker asks for the report, he is not asking for himself.

He is asking for the House. I know that there is some reason for your questions and honestly, it is passing me. Do you get the impression that we are asking for preferential treatment?

Mr. KEANE. You certainly got the Census Bureau's attention and particularly mine, on this issue. Since we are reviewing the policy, I probably won't get another opportunity like this to get firsthand impressions, and get your colleagues' reactions.

Chairman RANGEL. I am not an expert in protocol, but I would say, one, make certain that you don't give a higher standard in terms of priority to the press than you do to Members of Congress; and, two, yes, issue it to all of the Members of Congress at the same time, and then you might also say that you are having a briefing immediately following the issuance of the report.

So that if it is so complex, you might be able to explain what it means. However, I would like to point out that based on your testimony, I don't see how much you can explain, because it is my understanding that what you are testifying is that you don't deal with the definition of poverty.

You don't deal with what causes poverty, what relieves poverty, you don't deal with the programs, the taxes, you just deal with the figures, and you are proud of that.

I don't know, really, what the briefing would do, because I don't know, quite honestly, whether I am getting too much out of the testimony. But I think your testimony is that most of the questions that we asked are beyond the jurisdiction of the Bureau of the Census; is that correct?

Mr. KEANE. They are either beyond the jurisdiction or beyond our current data and mechanism for handling it.

Chairman RANGEL. And so——

Mr. KEANE. That is why I started with the clarifying statements. I thought it might help the deliberations to know what we can and cannot do.

Chairman RANGEL. Would you say that on the basis of the facts, that the categories, where most people who in the past have been classified as being poor, that their status is economically lower or that they are getting poorer? In the last decade or 4 years or whatever timeframe that would be practical, has it been your experience in looking at the data complied by the census bureau, those people classified in the upper income brackets, that they have become wealthier, statistically?

Mr. KEANE. If I were to rephrase your question, do you mean are the rich getting richer and the poor getting poorer, essentially?

Chairman RANGEL. I didn't want to make it sound so subjective, but that would be the question.

Mr. KEANE. There are more people, without defining what rich is, there are more people in those categories, but then there would be more people in any category because of the population increases.

Chairman RANGEL. I am asking whether the people who find themselves in this category have become wealthier, not whether or not more people have gotten into that group?

I don't want you to refer to the tax policy that allowed the majority of $750 billion to treat the wealthy more favorably, because that would not be within your jurisdiction. But statistically, did you find out whether or not they became wealthier and their net worths have increased, while those people who are poor, while they not only became larger in number because of the population, but they became poorer in terms of their ability to get out of the category of being poor?

Mr. GREEN. Mr. Chairman?

Chairman RANGEL. Notwithstanding population.

Mr. GREEN. Mr. Chairman, in attempting to answer this question, if you look at a statistic like the distribution of the aggregate income across different groups of families, say, fifths of families, that distribution has remained remarkably similar over time.

The highest fifths of families received about 43 percent of before-tax income and the lower fifth receives about 5 percent. Those statistics have remained remarkably stable over time.

Perhaps one would like to go further in terms of counting the noncash benefits into the calculations because they have been growing dramatically.

So far, we have only been concentrating on counting the benefits received primarily by low-income people, but we are now collecting information on benefits received by upper and middle-income people.

We want to get a better picture of the entire distribution of income.

Chairman RANGEL. The picture is not clear for you there. Is the picture clear as it relates to the number of people below the poverty line, and that poverty is, of course, not the one that you defined, but the one that the Office of Management and Budget defines, are more people below that line paying taxes now than ever before in the history of the United States?

Mr. GREEN. There has been an increase in the proportion of the poor paying taxes according to the work we have done on taxes. We have looked at Federal and individual income taxes, Social Security payroll taxes and property taxes.

There has been an increase in the proportion of poor paying taxes, because one reason is, of course, that poverty thresholds are increased every year for inflation, but the income tax brackets are not indexed.

Indexing will not go into effect until 1985, so you get a greater proportion of low-income people moving into the taxable range.

When you go through a recession, as we have recently done, you get more of the working poor falling down below the poverty level and they have more of the sources of income that are taxable, particularly the Social Security payroll taxes, which seems to be much more important in its effect than the Federal or State income tax.

Chairman RANGEL. I must have misunderstood because I thought you didn't get involved with the reasons as to why people are poor. I thought you just took facts and reported them.

Mr. GREEN. Sir, I am trying to describe the environment in which these changes occurred rather than give you a quantitative estimate of the separate effects.

Chairman RANGEL. You said something about why there are more people paying taxes that are poor. Wouldn't you say this includes unemployment, and some of the Federal programs, I mean, the tax system itself is responsible for why you say it is not indexed, tax policy?

Mr. GREEN. Inflation would push people into higher brackets from bracket creep.

Chairman RANGEL. We just had a tax cut, and that tax cut did not take into consideration the people we are talking about. That is tax policy. Isn't that in part responsible for why you have more people paying taxes that are poor than ever before?

Mr. GREEN. As I understand, taxes were cut for everybody.

Chairman RANGEL. You may understand it, but when you get the statistical data, and you look at the effective rate of taxes 4 years ago for a person in one income tax bracket and look at the effective tax rate this year, and they are paying more taxes now than they did in 1980, wouldn't you say that is a result of tax policy?

By the same token, go to a person making over $60,000, and they are paying less taxes today than they paid in 1979 and 1980, wouldn't you say the reason for this is tax policy?

Mr. GREEN. Tax policy is probably a part of it. If I could quote a few numbers, look at the proportion of total income of the poor paid in Federal income taxes.

For families, the proportion was about one-tenth of 1 percent in 1979, up to three-tenths of a percent in 1982. If you talk about the Social Security payroll taxes, they increased from 3 percent up to 3.5 percent over that period, so that is why I said the Social Security payroll taxes are more important. However, we are still talking about a relatively small percentage of income the poor paid in taxes.

Chairman RANGEL. When you get a job, they tell you what your pay is, and they tell you what your take-home pay is, and that is tax policy.

I don't want to push you outside of the area which you were restricting yourself in reporting, but if you got to talk about economic conditions as to why people are poor, you have to think about Federal programs which give assistance to these people and tax policies that may be increasing their burden.

But don't let me push you into testifying on that area, because you made it abundantly clear that you don't get involved as to the reasons why people are poor, you just count them based on an OMB definition.

Mr. Matsui?

Mr. MATSUI. Mr. Keane, I assume when Mr. Baldrige makes statements regarding statistical information, that he consults with your office prior to doing it, and then he transmits that information to the press or to the public, based upon your information.

Is that normally the procedure that is used in your department and your bureau?

Mr. KEANE. Not necessarily.

Mr. MATSUI. You did indicate that the poverty level should be lower in 1984, but you can't say how much at this time.

Mr. KEANE. Not that it should, it may.

Mr. MATSUI. On Friday, August 3, Mr. Baldrige, Secretary of Commerce, estimated the poverty rate would decline to 13 percent this year. Did he get that information from the Census Bureau?

Mr. KEANE. No.

Mr. MATSUI. Do you know where he might have gotten that information or was that just made up—I won't ask you the latter part.

Mr. GREEN. It did not come from the Census Bureau. Estimates calculated by his own staff, I assume.

Mr. KEANE. We would not care to speculate. It didn't come from the Census Bureau.

Mr. MATSUI. You are only a provider of statistical information, and we really can't get into the reasons and wherefores of poverty. Is that basically what you are saying?

Mr. KEANE. The Census Bureau mission is to provide accurate and relevant and timely data. We get into so-called descriptive analysis to do a better job of what we do.

Mr. MATSUI. On page 4 of your report, that was issued on August 2, Money, Income and Poverty Statistics of Persons and Families in 1983, this is the noncash benefit report, on the second paragraph, it says that it seems plausible to attribute the absence of significant declines in poverty in 1983 to the lingering effects of the deep and lengthy recession of late 1981 and 1982.

You are giving a causation for poverty in this situation.

Mr. KEANE. If I may respectfully disagree, I do not think that is a cause and effect kind of statement, but a general kind of statement, a plausability and no further than that. Any specific kind of cause and effect is beyond our data and models and, therefore, not intended.

Mr. MATSUI. How can you deny that there is no cause and effect in that statement? It seems plausible to attribute the absence of significant declines in poverty to the lengthy recession, how can you say that is not a cause and effect relationship?

Mr. GREEN. We do attempt to describe the environment in which these changes take place and normally, you observe poverty increasing during recessions, and lowering during recoveries, so we attempt to describe the economic environment.

Mr. MATSUI. In other words, if you cut AFDC benefits or eliminate some of the earned income disregards in those benefits, isn't it logical just to assume that more people would go into poverty as a result of that? Particularly for those people that are not working but are receiving welfare.

That is an environmental-type question that you are talking about now?

Mr. GREEN. I think the poverty population is probably not as responsive to an improving economy as the rest of the population.

Mr. MATSUI. You can't be political when it comes to the issue of recession and nonpolitical when it comes to the issue of budget cuts, how both affect the level of poverty. Next time you issue a report like this, in September or otherwise, you ought to take one course or the other, and you can't come before us and say you are not getting into causation, when your report mentioned that.

The 15 to 15.2 percent rate of poverty is statistically insignificant, although it adds up to about 900,000 additional people. What would make it statistically significant?

Mr. GREEN. The rate would have to increase by about five-tenths of 1 percent to be significant at the 95 percent or better level, and four-tenths of a percent increase would be significant at the 90- to 94-percent level.

Mr. MATSUI. Using your own statistics, and using another one of your reports, dealing with noncash benefits, issued in February 1984, if you include food and housing rates, the poverty rate would have been 13.4 percent in 1982.

In 1983, if you include those same noncash benefits, the poverty rate would have gone to 13.8 percent, four-tenths of a percent more than what it was in 1982.

Would you consider that statistically significant and therefore a real increase in the rate of poverty from 1982 to 1983, using those noncash benefits?

Mr. GREEN. Our calculation showed that comparison was significant at the 90- to 95-percent level. Your calculation uses the

market value approach for food and housing only, which is just one of nine different approaches.

Mr. MATSUI. The official definition is one of a number of different approaches as well, but if you use the market value approach, including food and housing rates, you would say that there was a 99-percent probability of a real increase in the rate of poverty?

Mr. GREEN. There is a 90- to 95-percent probability, using that technique; most of the other changes were not significant.

Mr. MATSUI. I understand if you look at a number of other approaches, it wouldn't maybe change it, but using the approach that you people took in your second report, there would have been a real increase in the rate of poverty, not an insignificant rate?

Mr. KEANE. We would acknowledge that, but we would not pick just that technique. It is important for the balanced point of view, all of them were experimental.

Mr. MATSUI. If you used that approach, or one of a number of approaches, you experience a real increase in the rate of poverty, that is all I am saying, because it is in fact a significant number, statistically, unlike the official increase?

Mr. KEANE. That is correct. Using others, it would disprove it.

Mr. MATSUI. You are not tax experts, so you don't want to get involved with tax policy. However, you are also not poverty experts, I am assuming. It seems interesting, however, that you are able to get involved. You indicated that you have not really talked to economists or professional people that are involved in the poverty issues, but at the same time, you were able to add noncash benefits in the second report and come up with a lower rate of poverty in this country, 13.8 percent, or even reduce it significantly for seniors, if you include medical benefits and other noncash benefits.

You did it mainly by putting a valuation on noncash benefits, which is very simple to do. You can go out and get an index of valuations of different noncash benefits and just subtract it from the poverty rate, and the number of people at different income categories and come up with a new figure; is that right?

Mr. GREEN. Yes, sir.

Mr. MATSUI. Why can't you do the same thing as it pertains to tax policy? According to your own statistics, recent tax policy has increased dramatically the amount of taxes that people at or below the poverty line pay today from the level in 1980, about a 10-percent real increase?

Why can't you subtract that number and come up with the same figures? What makes it so mysterious that you can do it with noncash benefits but not tax policy?

Mr. GREEN. Our primary mission is to produce the numbers. That is where our comparative advantage is so other persons can do the kind of analysis you described. I don't know how the Treasury Department would react to the Census Bureau getting involved in tax analysis, but I have a feeling it wouldn't be welcomed.

Our job in the tax area is to get a better estimate of after-tax income and that is different from getting into tax policy analysis, per se. But, I might add that if the Census Bureau was not producing these estimates, other agencies would not be able to do the kind of analyses that they have embarked on.

Mr. MATSUI. Let's get into the issue of the noncash benefits, if we may, because Mr. Stockman last November said that this would be a revolutionary new way of calculating poverty in the United States, thereby eliminating poverty.

At the present time, that is, the U.S. poverty level for a single elderly individual is $4,775.

Is that correct?

Mr. GREEN. That sounds about correct.

Mr. MATSUI. If you assign the value of medical benefits, Medicare and Medicaid benefits, to that same individual, you come—and we are using, again, your figures—$5,220 per year that that person receives in medical benefits, both Medicaid and Medicare. That basically gives them a negative amount left over for food, housing, fuel, clothes, entertainment, gifts to children, grandchildren, and other expenses they might have.

Would you consider that person to be above the level of poverty?

Mr. GREEN. I believe that value is using the market value.

Mr. MATSUI. Yes, I am using market value.

Mr. GREEN. There are different approaches that deal with much lower values and there is a lot of controversy over valuations, particularly with respect to medical care.

Even though we use an insurance value approach which does not make sicker people richer, the cost of medical care is so high that you are quite correct, the market value of the medical care would raise people above the poverty line, even if they had no other money for other necessities.

It is one way of looking at the valuation in terms of the total resources distributed, but there are other ways of valuing medical care that indicate a much lower value, one-sixth that level.

This whole area is very complex in terms of the techniques.

Mr. MATSUI. Because it is so complex and so difficult and so unofficial, I am really surprised that you had to issue two reports that looked almost exactly the same, and in fact gave the same type of authority as you gave the official definition of poverty report.

That is the part that somewhat surprises me, because now you are saying, "Gee, it is not as significant as you made it out to be."

Let me conclude, if I may, by asking you one other question, if I may. In September of this year, you are going to be issuing a report, I understand. Can you describe that report to me?

Mr. GREEN. Yes, it is a report from the Bureau's new Survey of Income and Program Participation, which went into the field in the fall of last year, and this first report will contain data on income, labor force, and program participation for the third quarter of 1983.

We interviewed households every 4 months in that survey, and there will be a recurring series of reports, another one coming out in December for the following quarter.

Mr. MATSUI. How much money has been spent on that report? Do you happen to know what the budget authority is on that report?

Mr. GREEN. On that particular report, no, sir, I don't know.

Mr. MATSUI. When was the decision made to release that report in September?

Mr. KEANE. Last fall is what I am told.

Mr. MATSUI. OK, and you are reasonably certain that you will release it in September, not before and not after?

Mr. KEANE. Yes, we are.

Mr. MATSUI. OK. The only reason I ask is I was told by somebody in the Commerce Department that that report was going to be used for political purposes, and it was going to be released timingwise, so that the President can deal with the issue of fairness.

I was told that by somebody in the Commerce Department, and I wanted to call your attention to it, that such a statement had been made.

We will be looking forward to seeing the report, seeing how it is in fact used by the administration, by your office, and by perhaps others.

Mr. KEANE. Was that individual in the Census Bureau?

Mr. MATSUI. I couldn't divulge that kind of information. That is certainly not appropriate on my part.

Mr. KEANE. I certainly want to know, because it is not our intent whatsoever.

Mr. MATSUI. I understand what happens to people in this administration when they are accused of doing something that perhaps the administration doesn't like, so I wouldn't want to put anybody in jeopardy.

Mr. KEANE. You have struck a tender nerve and we feel very strongly about nonpartisanship and keeping to scheduled commitments.

Mr. MATSUI. I am not going to discuss partisanship. I was criticized by my colleague on the other side of the aisle. I am sympathetic to your situation. You just came in recently and obviously are showing good faith today by saying you are reexamining some of these policies. I certainly hope that that does happen.

Chairman RANGEL. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman.

Let me pursue a couple of statistical questions. When you talk about a 95-percent confidence level, you are saying 15.2 percent and 15 percent are both in the same realm of the error? They could both fall in the error category.

Mr. GREEN. Yes, we are not 95 percent sure that a change in fact occurred. It is within that range.

Mr. CAMPBELL. You have a 95-percent confidence level, they could both fall in that same range?

Mr. GREEN. Correct.

Mr. CAMPBELL. You keep figures at the Census Bureau. Do you have any idea, or do you keep the figures as to how many people are working in this country today?

Mr. GREEN. Total employment. We can certainly get that. The BLS really has the responsibility for those kinds of figures. They also come out of the current population——

Mr. CAMPBELL. 106.5, 107 million would be somewhere in the range?

Chairman RANGEL. What range would that be? What range are we talking about?

Mr. GREEN. Total employment.

Chairman RANGEL. What range would you say it is?

Mr. GREEN. He quoted 106 million people employed. I don't have a figure right at my fingertips on that on total employment, out of a population of 230 million.

Chairman RANGEL. It sounds correct. You put the same accuracy to his figures?

Mr. KEANE. That comes out of the BLS.

Chairman RANGEL. I want to know the source, to get the statistical data. When he said "No," and he was so anxious to agree with you, I wondered whether he had the report, too.

Mr. CAMPBELL. He said he had seen it. Obviously, that is more people working than we have had in the history of the country. I have seen that, too, Bureau of Labor Statistics.

I want to pursue this, the BLS has reported that there are 4 million new jobs, new people and more people working since January of this year, and that of those working, over 450,000 are female heads of household.

In your statistics that you have supplied in this report, you have shown that the poverty rate for married couples or families together has not risen. That is an interesting figure, but you have also shown that a lot of the increase in the population numbers—numbers now—is in the female heads of household.

If the 450,000-plus are here and have gone back to work, would you have any figures to show whether that would statistically impact the poverty level?

Mr. GREEN. Our data relate only to 1983. We have no figures yet for 1984.

Mr. CAMPBELL. Earlier in the testimony, you were asked about taxes, and you were asked about what percentage of people in poverty pay taxes. Do you have any breakdown in your figures? What percentage pay Federal income taxes?

Mr. GREEN. Sir, we do.

Mr. CAMPBELL. Taxes is a generic term.

Mr. GREEN. It was 7 percent for family households in 1982, and 8 percent for nonfamily households.

Chairman RANGEL. It is an increase in the number of poor people being taxed.

Mr. GREEN. The proportion paying taxes has gone up.

Mr. CAMPBELL. Federal income tax is what I want to know.

Mr. GREEN. Federal income tax.

Mr. CAMPBELL. Now, will those people who are at the very bottom, or have they in the past statistically been pushed upwards by the bracket change? Have you seen any increase?

In other words, as inflation has gone up and the brackets have been pushed up, have we seen any increase among the number paying, or the percentage paying Federal taxes?

Mr. GREEN. Inflation has pushed everyone up. It has pushed some people into the taxable range, and pushed others into higher marginal tax rates, certainly.

Mr. CAMPBELL. Those people with an indexing program would not be pushed up, and could be helped, and I won't put you on the spot. That is a statement.

I look at the figures of 1979, 1980, and 1981, and I see about a 2.3-percent increase in the poverty rate, 3-year period. I also see

the largest rate in 3 years in inflation in the peacetime history of this country.

Do you have any statistics that control for the variable of inflation that would have shown that impact?

Mr. GREEN. The poverty thresholds are adjusted each year for the level of inflation, so the poverty levels have risen with inflation.

Mr. CAMPBELL. Poverty levels have risen with inflation?

Mr. GREEN. Yes, because the thresholds are indexed with the rate of inflation. We have not tried to identify the effect of inflation on economic variables.

Mr. CAMPBELL. Would you say it was statistically significant that the poverty level rose from 11.7 percent in 1979 to 14 percent in 1981.

Mr. GREEN. That is statistically significant.

Mr. CAMPBELL. OK, I wanted to see when we were having this big rise. It is very important to recognize that. You mentioned Social Security taxes, those paying, 3 to 3.5 percent?

Mr. GREEN. Of their total income, over 1979 to 1982.

Mr. CAMPBELL. Does that mean that then they have increased paying approximately 16.6 percent increase in what they are paying?

Mr. GREEN. Dividing the 3.5 by the 3?

Mr. CAMPBELL. We are dealing with statistics. I wanted to see where we are. That is where you have had a rather large increase in the amount of tax of people that are paying below the poverty level?

Mr. GREEN. Social Security payroll taxes are more significant in their impact on the poor than Federal and State taxes, both in proportion of total income paid in taxes and——

Mr. CAMPBELL. OK, I wanted to make sure what we are talking about when we use the term tax overall. I am interested in the statistics on inflation, and I will go back to that in a minute, and the poverty rate, and you have said that inflation does push the poverty figures up.

They are indexed, but you do not have any figures that control for the variable of inflation as to exact impact on the purchasing power of people below the poverty line; is that correct?

Mr. GREEN. We don't know the effect of inflation on the economy in terms of changes of real variables. If a person is on a program not indexed to the rate of inflation and prices are going up, then that person is falling behind.

Mr. CAMPBELL. OK.

Now, you also, in your testimony, mentioned that various groups were helped dramatically by some of the programs, the elderly, if you applied noncash—female heads of household, that sort of thing.

You have not proposed to change the method by which you report the poverty level, though, have you?

Mr. GREEN. No, sir, we have just one official definition. The work on valuing the noncash benefits was at the request of the Congress, and it continues to be an exploratory research program.

Mr. CAMPBELL. That is just for us to see what help is going to the people and what impact it is having, but it is not used to define the official rate of poverty?

Mr. GREEN. That is correct. The level of expenditures on noncash benefits to low-income persons is about twice as high as the cash assistance so many people feel that it is something that we need to know about in terms of its effect.

Mr. CAMPBELL. If we count it all, it is lowered by a third?

Mr. GREEN. Depending on how you value it.

Mr. CAMPBELL. But you are not changing the method by which you are defining poverty. My point is, if we were today to double all of the noncash benefits, would it change your figures on poverty?

Mr. GREEN. Not the official figures. They do not include noncash benefits. They would show no change at all.

Mr. CAMPBELL. Would it cut it in half?

Mr. GREEN. Not at all.

Mr. CAMPBELL. That needs to be very, very clear for people, because we are not talking about those benefits. Finally, let me finish about this, you have said that we are in the area of error on 15 to 15.2 percent.

We have also seen that under the budgets that the Reagan administration presented to the Congress, and under which we operate, we have increased 1.2 percent.

Now, the 1.2 percent figure obviously, I believe, and you correct me if I am wrong, is statistically significant; correct?

Mr. GREEN. That is correct.

Mr. CAMPBELL. Is the fact that during the inflation years, high inflation years, 1979, 1980, and 1981, is the fact that during those years, when we operated 2 years under a budget of another administration, one under this administration, that the poverty rate increased 2.3 percent during those years?

That is statistically significant?

Mr. GREEN. Yes.

Mr. CAMPBELL. I would be more statistically significant than the 1.2 percent, wouldn't it?

Mr. GREEN. I would have to test it to be sure. The difference is large enough that it should be.

Chairman RANGEL. Mr. Pease?

Mr. PEASE. Thank you very much, Mr. Chairman.

If the increase in the poverty rate is two-tenths of 1 percent from last year to this year, clearly that is a net figure. Some people moved into poverty during that period and some people moved out, is that correct?

Mr. GREEN. That is correct.

Mr. PEASE. Do your statistics shed any light on the kinds of people who moved in and those who moved out, or the geographic location of those who moved in or out?

Mr. GREEN. We can't look at that from a longitudinal perspective in terms of specific individuals moving in or out, because the survey is cross-sectional. When we get the Survey of Income and Program Participation, we will be able to address that issue.

With the Current Population Survey, we can only analyze how the composition of poverty has changed from 1 year over the next.

Mr. PEASE. You said there is some evidence that the number of persons in poverty increased by 870,000 during the last year, is that correct?

Mr. GREEN. That is correct.

Mr. PEASE. How does that relate to the two-tenths of 1 percent?

Mr. GREEN. Well, that is an increase in the total number of poor, and does not account for the fact that the total population increased by 2.2 million. When you compare the number of poor against the total population, you get the poverty rate or the percentage in poverty, so these are the 15 and 15.2 percent figures that were referred to earlier.

Mr. PEASE. Would you run that by me again?

Mr. GREEN. OK. The increase—some evidence of an increase—of 870,000 persons in poverty is a change in the number of poor. OK?

The poverty rate which refers to the 15.2-percent figure is the percentage of the population in poverty. When you look solely at the number, you are ignoring changes in the total population.

When you look at the poverty rate, you are accounting for changes in the total population because you divide the number of poor by the total population. Hence, the poverty rate figure is accounting for the fact that the total population increased by 2.2 million persons, and that is how you can get some evidence of a change on the one hand, and not on the other when you are looking at the two statistics.

Mr. PEASE. I see. There has been some discussion with other members of the committee about whether two-tenths of 1 percent is a significant increase or not, from a statistical point of view. I guess your answer is that it is not significant?

Mr. GREEN. Two-tenths of a percent is not significant statistically.

On the current level of poverty a change of about four-tenths of a percent would be significant at the 90- to 95-percent confidence level and five-tenths of a percent would be significant at the 95-percent level.

You would be 95 percent sure that a change actually occurred.

You can never be completely sure when you are dealing with a sample of the population. You have to take an entire census to be completely sure.

Mr. PEASE. Do your comments about the validity from a statistical point of view apply whether the poverty rate is going up or going down?

Mr. GREEN. The standard error, the measure of reliability of a number, is used to calculate those confidence intervals and for a given estimate it is about the same, in either a negative or positive direction.

If you are talking about a different level of poverty, the standard error is just about the same in both the negative and positive direction for a given estimate.

If you are talking about a poverty rate of a different level, like the 40-percent figure that we heard earlier for persons in the female householder families, or if the number of people in that group is smaller, the standard error and the confidence intervals will certainly be affected.

Mr. PEASE. Well, the rate is now 15.2 percent. If next year it were to go down to 15 percent, that would not be significant either from a statistical point of view.

Mr. GREEN. If it were to go from 15.2 to 15, no, sir, it would not. You need a change of four-tenths of a percent in the negative direction for that to be significant.

Mr. PEASE. These figures reported to us are for 1983.

Are they for a given point of time, a given day or a given week in 1983?

Mr. GREEN. They are for calendar year 1983. The way we collect the estimates is to go out in March—in the Current Population Survey of March 1984—and ask the respondents about income they received for all of calendar 1983 and then those values are summed up to determine whether a family is in poverty or not. It takes the entire year into account.

Mr. PEASE. Well, that is very interesting in relation to the point that my colleague from South Carolina was trying to make earlier.

He was talking about the poverty rate having increased from 11.7 percent in 1979 to 14 percent in 1981.

Actually the figure, the 14 figure for 1981 would have been for the entire year of 1981, is that correct?

Mr. GREEN. Correct.

Mr. PEASE. So the rescissions in a variety of programs, which were supported by the Reagan administration when it came into office in January 1981, might well had have an effect on the income of people during the course of that year; is that correct?

Mr. GREEN. I do not have any knowledge about the nature of the rescissions. I know the budgets are according to fiscal years and our income data are according to calendar years, so they don't line up exactly, but I don't have the knowledge to answer that question.

Mr. PEASE. Certainly the cuts that were made in the budget bill of 1981, many of which went into effect on October 1, 1981, would have affected 1981 figures as well?

Mr. GREEN. The figures are for all of 1981 so any change after October would have to be averaged in with the change before October in terms of the total estimate.

Mr. PEASE. I think just for the record it is worthwhile to note that there may well be a legitimate dispute about who gets the credit for the poverty level in the year 1981, whether it is a holdover of the Carter administration, or whether it was influenced to some significant degree by changes in the Reagan administration.

If one were to look at the change from 1977 to 1980, that would have been from 11.6 percent to 13 percent, and 1.4 percent increase, and then if one were to use the 1981 figure and go on from there, 1980 to 1983, it would have gone from 13 percent to 15.2 percent, or an increase of 2.2 percent, roughly twice as much in this administration as in the previous administration.

Mr. CAMPBELL. Will the gentleman yield a minute?

Mr. PEASE. I would be happy to yield.

Mr. CAMPBELL. I was very careful to point out, budget years that we were talking about and I did not use 1977 because Mr. Carter was operating under a budget left him by Mr. Ford except for the last 2 months of the year and by the same token you operated under a budget starting in October 1980 for 1981 and it was a 1-percent increase in 1 year under the Reagan administration, but the point being, the budget years that we have operated under

show that there has been a major increase before and there was an increase under the first year of the Reagan administration.

The point I was driving to was that the budget decisions essentially are almost neutral on the poverty question because of the line that is at the top that they are using in noncash benefits, but if you want to use it the other way and say budget decisions were what caused it, you use those budgets that were under one administration or another. That is my point.

Mr. PEASE. I thank the gentleman for his clarification.

I heard the gentleman say before that noncash benefits are not counted. I wonder if that does not suggest that the actual condition of poor people has gotten worse, even worse than the figures would indicate because of the cuts in noncash benefits.

Could you comment on that?

Mr. GREEN. Well, looking at the change between 1982 and 1983 and we did discuss this earlier, I believe Congressman Matsui brought it up, if you look at the market value approach of counting food and housing benefits only, ignoring medical benefits, there was some evidence of a change in the poverty rate but that is one approach out of nine different approaches that we used to count noncash benefits. In many of the other approaches indicated there was not a significant increase in the poverty rate. The Census Bureau has not been willing to take a stand and say which of the different valuation approaches is the preferred one. We put nine out there for the public to analyze and to use their own judgment. So, you get a mixed result depending on which of these approaches you use.

Mr. MATSUI. Will you yield to me?

If you use the alternative measure of poverty from 1980 to 1983, using the market rates of these noncash benefits in each of those years, the rate of poverty goes up; is that correct?

Mr. GREEN. I believe between 1980 and 1983 it goes up both under the official definition and counting noncash as well.

Mr. MATSUI. 11.1 to 13.8 percent; is this correct?

Mr. GREEN. Using the official?

Mr. MATSUI. Using the alternative measure.

Mr. GREEN. Market value of food and housing only? A 2.7-percentage increase.

Mr. MATSUI. Right. As I indicated earlier, it went from 13.4 percent in 1982 to 13.8 in 1983.

Is it 95 percent significant? Doesn't this show some Government programs, cuts in AFDC, and other programs do affect poverty rates somehow? Isn't that obvious to you, just like the environment in terms of the recession? Can't you acknowledge that?

Mr. GREEN. I don't think it is as simple as you are stating it.

Mr. MATSUI. I am not saying it is simple, no more than you said it was not simple in terms of the recession.

Isn't that a plausible explanation for some of the increases in the rate of poverty?

Mr. GREEN. In the 1980 to 1983 period, we had one recession going from the first part of 1980 and the second recession was designated in 1981. That whole period is recessionary. According to past trends in poverty data, poverty increases very significantly during recessions and we have said we are unable to disentangle

separate effects of program changes from the recession. Other studies have attempted to do this but we do not have the models or the data to do it accurately at the Census Bureau.

Mr. MATSUI. From 1980 to 1983, the rate goes up 2.7 percent and using the official definition, it goes up 2.2.

When you use the market value of those noncash benefits, it goes up five-tenths of 1 percent more than under the official definition. It seems to me that Government programs which these noncash benefits are, do affect the poverty rate. How can you deny that in good faith?

I would admit that the recession has an effect on the poverty rate. There is no question about that, but to say that you cannot state that Government programs do or do not have an effect on the poverty rate is nonsense.

I can't imagine anyone taking that position.

Mr. GREEN. I don't agree with you because when you have a change in the program, you have changed the world in terms of incentive structure. You could change the way people participate in the labor market, and it is not so easy to say all of that difference is due to program changes alone.

Mr. MATSUI. I hope you look at the Congressional Research Service report issued 2 weeks ago. You might want to look at that even though you might have a point of view that differs somewhat. I don't know.

Thank you.

Mr. PEASE. I yield back the balance of my time.

Mr. GUARINI [presiding]. In listening to the dialog, I seem to think that perhaps we are really not going anywhere. Mixed results depend upon methods of calculating and figuring and I know one thing that seems very clear to me. I come from a district that I see from the disadvantaged and underemployed more suffering, and it appears to me that this poverty should not have the politics that it has.

I have noticed with a great deal of difficulty, pulling out conclusions, and getting sufficient information from figures and statistics, it is very frustrating, because we are a nation of people and not a nation of statistics, and it is a shame that poverty is left to a political question, as it is.

It should be something that all of us want to alleviate and I would have an impression from listening to what has been said that there are opinions that you have as experts. There are conclusions which you can draw from your statistics, instead of getting into the sophistication of feeling that there are other loyalties that lie underneath, and I note that with the President's national budget, he gives Congress the information before it goes public, and with the most sensitive problems that we have in national security, a select intelligence committee gets information and I don't see where there is really this national security, sensitivity question regarding the poverty issue, the greatest social issue, but if there were, I would like to suggest that there are conclusions and opinions that could be helpful to all of Congress and if it were necessary to satisfy the administration, that those conclusions and opinions be given to a select committee, as we do with other issues

which are highly sensitive, and are deemed "national security" so you could take some of the politics out.

We need the benefit of your thinking and expertise, and, as experts, it seems that what you are giving this committee is wholly inadequate for us to use as a basis of any legislation.

It seems that we are quibbling and quarreling over two-tenths of a point. I am interested in knowing in Mr. Stockman's statement last year where he predicted poverty would decline significantly in 1983. Was that correct or incorrect? Do you have a conclusion on that?

Mr. Keane?

Mr. KEANE. No; I do not.

Mr. GUARINI. That is appalling to me and shocking to me. We are wasting our time. If we are going to be responsible to the people and be concerned about the people, we have to have the kind of knowledge that you could give us, and if it has to be given in closed areas, or in other atmospheres, we still need it and we are not getting fed that kind of information.

It seems hard to believe that you would have no opinion that you could really give on whether or not the tax policy is hurting our Nation and whether it is causing more poverty.

It seems difficult for me to believe that whether or not the cutback in SSI, or pensions or school nutrition lunches, or things like that is making a difference, and where are we to get the information?

Mr. KEANE. I can sympathize with your disappointment. It is just that this is not our role and in this case the techniques involved as we have said over and over again are experimental.

Mr. GUARINI. I know, but to synthesize the information we need, it would come from your data banks, even if it is only an opinion from an expert, we have economists who often appear before us and we get two different opinions and they often appear to be wrong, but at least we make an effort to get their conclusions. This doesn't seem to be forthcoming from you gentlemen.

Mr. GREEN. Our primary responsibility is to produce the data and we produce a very wide range of data so that other people can do the kinds of analysis you are describing. We do not have the resources to both produce the data and do an in-depth analysis. If we don't produce the data, then other people cannot do the kind of analysis you describe.

Mr. GUARINI. You are giving us numbers. We can spend 6 months getting numbers, but there are conclusions which you feel in your heart and mind that are locked in and will not be let out. If we have to get those conclusions in another manner, we should have them because, as experts, there is something that you possess that you are not offering to Congress, and we need all the help we can get, in order to use, as a basis of decent and proper and fair legislation.

It seems to me that maybe we have another vehicle that we have to explore where if the Speaker of the House asks for something which is important to Government, that you feel you have to go by a controlled public relations route instead of giving the information to the Speaker of the House. That doesn't seem to be Government

cooperating within Government. It is more of a touch of arrogance of bureaucracy.

The process has an arrogance built into itself.

Mr. KEANE. I am an expert on my own heart and mind and there are none of those conclusions there. You talk about the economists who speculate. That is the one thing we want to avoid. We are trying to maintain a highly professional, objective approach in the work we do.

Mr. GUARINI. Do you have personal opinions, sir?

Mr. KEANE. I am before this committee only in a professional role.

Mr. GUARINI. I understand, but as a professional, going through all of these statistics, we spend billions of dollars over 10 years to get these figures. Don't you think there is something more that you can give to Government than just numbers? Aren't there gut reactions and feelings?

Mr. KEANE. That would worry me all the more to give a gut reaction on such a sensitive and important topic as this. I hope we never give gut reactions at the Census Bureau. If we ever do, then I have joined the wrong organization.

Mr. GUARINI. All right, sir.

Mr. Matsui.

Mr. MATSUI. I want to make sure you clarified my last comment. Under the official definition, 1980 to 1983, the official rate went up 2.2 percent. With food and housing, market rates from that same period, 2.7 points. That is one-half of a percent difference. Is that difference in the rates statistically significant?

Mr. GREEN. Some evidence. It is significant at the 90 to 95 percent level.

Mr. GUARINI. Mr. Campbell.

Mr. CAMPBELL. Thank you for being here and I realize you testified in the area of your expertise. You are statisticians and you are not economists, and therefore I appreciate your not trying to assume a ladder to try to get out of a hole. I appreciate your testimony.

Mr. GUARINI. I want to thank both of you gentlemen. We do have a vote on. I am frustrated not being able to identify poverty causes. I do appreciate the quality of expertise that you do bring to your profession and you obviously are very splendid gentlemen and I just only ask if I feel that there are any avenues that should be explored as to how we can get more out of this experiment that we talk about, it would be helpful to Congress and helpful to all our people of our blessed Nation.

I would like to ask if the record can be kept open and the staff will submit in writing certain questions which I assume you would be very happy to comply with?

Mr. KEANE. We shall.

[Subsequent correspondence follows:]

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC, August 17, 1984.

Dr. JOHN G. KEANE,
Director, Bureau of the Census,
Washington, DC.

DEAR DR. KEANE: As Chairmen of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation, we wish to express our appreciation to you for appearing before our Subcommittees and helping us understand the recently released Census data. To further aid our understanding of this data, we are submitting to you the following questions and ask that questions 1–11 be answered by September 5, 1984 and the remaining questions be answered as expeditiously as possible.

(1) If the Omnibus Budget Reconciliation Act (OBRA) of 1981 cuts had not taken place, would the 1983 poverty rate be lower?

(2) Is the increase in the poverty rate from 1981 to 1983 partially due to the budget reductions?

(3) In the table below, are the amounts of means-tested cash assistance (AFDC, general assistance, SSI, and means-tested veteran pensions) and non-cash, non-medical assistance (food stamps, school lunches—both means and non-means tested, and public housing). These numbers are all derived from Table A in Census Bureau Technical Paper No. 52.

MEANS-TESTED CASH ASSISTANCE AND NONCASH, NONMEDICAL BENEFITS

[In millions of 1983 constant dollars]

	1979	1980	1981	1982	1983
Total	49,157	49,544	48,733	46,170	46,508
Cash	31,764	30,812	29,444	28,069	27,589
Noncash	17,393	18,732	19,289	18,101	18,919

(a) If spending on means-tested cash assistance were held at 1980 levels, would poverty have been reduced?

(b) Does the large decline in cash assistance between 1981 and 1982, the year that the OBRA cuts were felt, indicate that budget cuts were a factor in explaining the poverty increases between 1981 and 1983?

(4) In response to a question at the hearing, you indicated that under the measure of poverty which includes food and housing benefits at market value, poverty did increase (at a 90% confidence level) between 1982 and 1983. In a statistical sense using a one tail test, what level of confidence can you assign to the hypothesis that poverty increased under each of the nine alternative measures?

(5) Again, in response to a question, you indicated that under the alternative measure of poverty which includes food and housing at market values, poverty increased (showed some evidence of) at a faster rate than the official rate. Haven't changes in governmental policy in non-cash programs between 1980 and 1983 affected this result?

(6) Many analysts would hypothesize that the alternative measures are most sensitive to government policy and therefore would be more likely to show faster rates of increases than the official definition. The hypothesis that each of the nine alternative measures including non-cash benefits increased more than the official measure with cash income only for 1980 to 1983 can be tested statistically using a one tail test. What level of significance can you assign to this test for each of the nine measures?

(7) Since 1981, the number of individuals in female-headed families in poverty grew by 9 percent, yet the poverty gap for these families increased by 15 percent. What would lead to this result? Could a substantial part of this be attributable to the AFDC budget cuts?

(8) We have been told that after medical care is included in the income levels, your data show that there is not a single poor person over age 65 in the State of New York. Is this true? Does the Census Bureau defend a measure which leads to such result?

(9) The measurement of poverty is a determination of whether family income is below a poverty threshold which grows from year to year according to prices. Thus, the change in poverty from year to year is essentially a measurement of what hap-

pens to people's real income at the bottom end of the income spectrum. Since real incomes overall grew by 1.6 percent, would this not reduce the amount of poverty or decrease the poverty gap?

(10) We have been told that this is the first time median incomes increased at the same time that the number of people in poverty increased. Is this true? Why did this happen? Did the budget reductions play a role in this precedent-setting event?

(11) For 1979 to 1983 could the table in question 3 be disaggregated into benefits for individuals and families below the official poverty thresholds and for those above? In addition, calculate the total amount of means-tested cash and non-cash, non-medical benefits per person below poverty.

(12) Please redo the attached table with the earned income tax credit treated as income if the credit exceeds Federal income tax liability.

(13) Please do tables 2 and 3 for families and unrelated individuals below 125 percent and 150 percent of poverty, respectively.

(14) Add 1983 to tables 1, 2 and 3 using the 1982 tax model with appropriate adjustments for the Federal 1983 tax structure.

Again, thank you for your testimony and your attention to these questions.

Sincerely yours,

HAROLD FORD,
CHARLES B. RANGEL,
Members of Congress.

TABLE 1.—NUMBER OF PERSONS BELOW THE POVERTY LEVEL AND POVERTY RATES SELECTED INCOME CONCEPTS: 1979 TO 1982 [1]

[Numbers in thousands]

Income concept [2]	Year			
	1982	1981	1980	1979
NUMBER				
Money income only	34,398	31,822	29,272	26,072
Money income and food stamps	32,952	30,238	27,421	24,035
Money income, food stamps, and public housing	31,599	28,748	25,934	22,490
Money income less Federal and State income taxes and payroll taxes	37,573	35,118	31,561	28,014
Money income, food stamps, and public housing less Federal and State income taxes and payroll taxes	34,768	31,955	28,158	24,387
POVERTY RATE				
Money income only	15.0	14.0	13.0	11.7
Money income and food stamps	14.4	13.1	13.0	10.8
Money income, food stamps, and public housing	13.8	12.7	11.5	10.1
Money income less Federal and State income taxes and payroll taxes	16.4	15.5	14.0	12.6
Money income, food stamps, and public housing less Federal and State income taxes and payroll taxes	15.2	14.1	12.5	10.9

[1] The data in this table were prepared at the request of Mr. William A. Kirk of the House Committee on Ways and Means, Subcommittee on Oversight in his Apr. 19, 1984 letter.

[2] Estimates based on the market value of food stamps and public housing.

NA: Not available.

Source: Bureau of the Census; July 1984.

TABLE 2.—NUMBER AND PERCENT OF HOUSEHOLDS BELOW THE POVERTY LEVEL PAYING TAXES BY SPECIFIED TYPE OF TAX AND TYPE OF HOUSEHOLD: 1979 TO 1981

[Numbers in thousands]

Type of tax	Number				Percent			
	1982	1981	1980	1979	1982	1981	1980	1979
FAMILY HOUSEHOLDS								
Total	7,338	6,670	6,036	NA	100.0	100.0	100.0	100.0
Paying:								
One or more taxes	5,172	4,839	4,313	NA	70.5	72.5	71.5	NA
Federal income tax	515	486	251	167	7.0	7.3	4.2	3.1
State income tax	1,111	1,031	817	NA	15.1	15.5	13.5	NA

TABLE 2.—NUMBER AND PERCENT OF HOUSEHOLDS BELOW THE POVERTY LEVEL PAYING TAXES BY SPECIFIED TYPE OF TAX AND TYPE OF HOUSEHOLD: 1979 TO 1981—Continued

[Numbers in thousands]

Type of tax	Number				Percent			
	1982	1981	1980	1979	1982	1981	1980	1979
Payroll tax	3,965	3,703	3,276	2,833	54.0	55.5	54.3	53.1
Property tax	2,690	2,546	2,245	NA	36.6	38.2	37.2	NA
NONFAMILY HOUSEHOLDS								
Total	4,197	4,387	4,301	NA	100.0	100.0	100.0	100.0
Paying:								
One or more taxes	2,237	2,423	2,300	NA	53.3	55.2	53.5	NA
Federal income tax	334	231	165	99	8.0	5.3	3.8	2.5
State income tax	402	347	367	NA	9.6	7.9	8.5	NA
Payroll tax	958	941	866	829	22.8	21.5	20.1	20.8
Property tax	1,432	1,708	1,611	NA	34.1	38.9	37.5	NA

NA—Not available.

TABLE 3.—AGGREGATE AMOUNT OF TAXES AND PERCENT OF INCOME PAID IN TAXES BY TYPE OF TAX AND TYPE OF HOUSEHOLD: 1979 TO 1981

[Aggregate in millions of dollars]

Type of tax	Aggregate amount				Percent of income			
	1982	1981	1980	1979	1982	1981	1980	1979
FAMILY HOUSEHOLDS								
Total taxes	2,960.0	2,468.0	1,768.3	NA	8.0	7.6	6.6	NA
Federal income tax	117.2	105.0	60.7	31.5	0.3	0.3	0.2	0.1
State income tax	67.2	60.9	45.1	NA	0.2	0.2	0.2	NA
Payroll tax	1,287.7	1,193.8	833.3	636.8	3.5	3.7	3.1	3.0
Property tax	1,466.7	1,091.2	813.2	NA	4.0	3.3	3.0	NA
NONFAMILY HOUSEHOLDS								
Total taxes	813.2	771.2	583.4	NA	6.4	6.1	5.1	NA
Federal income tax	41.0	24.4	12.9	3.6	0.3	0.2	0.1	—
State income tax	18.0	13.7	13.8	NA	0.1	0.1	0.1	NA
Payroll tax	157.1	141.4	107.7	92.1	1.2	1.1	0.9	1.0
Property tax	593.9	590.8	446.1	NA	4.7	4.7	3.9	NA

NA—Not available.
— = Less than 0.1 percent.

U.S. DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington, DC.

Question 1. If the Omnibus Budget Reconciliation Act (OBRA) of 1981 cuts had not taken place, would the 1983 poverty rate be lower?

The issue of whether program reductions or restrictions could have caused some persons or families to fall below the poverty line cannot be directly addressed with the data available to us. If the Census Bureau had sufficient longitudinal data and if a valid and reliable model were available, it would be possible to make the required estimates with some assurance.

Question 2. Is the increase in the poverty rate from 1981 to 1983 partially due to the budget reductions?

We are unable to measure the effects of the budget reductions on the poverty rate for the reasons given in our answer to Question 1. In the absence of evidence in the form of survey data, any answer to this question would be speculative. The period from 1981 to 1983 is complicated because there was a recession during the time when the program changes took effect.

Question 3. In the table below, are the amounts of means-tested cash assistance (AFDC, general assistance, SSI, and means-tested veteran pensions) and non-cash, non-medical assistance (food stamps, school lunches—both means and non-means

tested, and public housing). These numbers are all derived from Table A in Census Bureau Technical Paper No. 52.

MEANS-TESTED CASH ASSISTANCE AND NONCASH, NONMEDICAL BENEFITS

[In millions of 1983 constant dollars]

	1979	1980	1981	1982	1983
Total	49,157	49,544	48,733	46,170	46,508
Cash	31,764	30,812	29,444	28,069	27,589
Noncash	17,393	18,732	19,289	18,101	18,919

(a) If spending on means-tested cash assistance were held at 1980 levels, would poverty have been reduced?

(b) Does the large decline in cash assistance between 1981 and 1982, the year that the OBRA cuts were felt, indicate that budget cuts were a factor in explaining the poverty increases between 1981 and 1983?

Again we must point out that we do not have the data that would allow us to analyze the effect of the budget cuts in the poverty rate. For example, data from the Current Population Survey show that the poverty rate among families receiving public assistance income rose from 66.1 percent in 1981 to 75.1 percent in 1982. Can we conclude from this that the budget cuts caused an increase in poverty? Not necessarily, because the Current Population Survey data also show that the poverty rate among families with earnings rose from 7.9 percent to 8.5 percent during the same time period. The availability of longitudinal data would help to sort out the effects of budget cuts from other factors that affect the poverty rate.

Question 4. In response to a question at the hearing, you indicated that under the measure of poverty which includes food and housing benefits at market value, poverty did increase (at a 90% confidence level) between 1982 and 1983. In a statistical sense using a one tail test, what level of confidence can you assign to the hypothesis that poverty increased under each of the nine alternative measures?

The Census Bureau does not use one-tailed tests to determine the significance of changes in sample characteristics. We use two-tailed tests because we have no prior hypothesis about the direction of change. To use a one-tailed test on the change in poverty implies that there is strong evidence of the direction of change in poverty. To have applied a one-tailed test to the null hypothesis that poverty did not decline between 1982 and 1983 would have been wrong, since the number of poor showed some evidence of an increase between 1982 and 1983. This is a good illustration of why the Census Bureau uses two-tailed tests—we do not have prior knowledge of the direction of change. To apply a one-tailed test after knowing the direction of change from the survey results is incorrect.

Question 5. Again, in response to a question, you indicated that under the alternative measure of poverty which includes food and housing at market values, poverty increased (showed some evidence of) at a faster rate than the official rate. Haven't changes in governmental policy in non-cash programs between 1980 and 1983 affected this result?

The fact that the income measure that includes food and housing at market value showed a greater increase in poverty than the official income measure during the 1980–1983 period implies that food and housing programs had a reduced effect on lifting persons and families above the poverty line. This reduced effect may have been because of declines in per capita benefits or differences in the way benefits were distributed. Longitudinal data would be helpful in examining the issue in more detail.

Question 6. Many analysts would hypothesize that the alternative measures are more sensitive to government policy and therefore would be more likely to show faster rates of increase than the official definition. The hypothesis that each of the nine alternative measures including non-cash benefits increased more than the official measure with cash income only for 1980 to 1983 can be tested statistically using a one tail test. What level of significance can you assign to this test for each of the nine measures?

A one-tailed test would also be incorrect for this hypothesis. We have no reason to believe, a priori, that the "noncash" poverty rate would always increase by more than the official rate. There may be instances where they move in opposite directions. Again, the Bureau does not want to release formally any information that it

believes is statistically incorrect and, therefore, we will not recalculate the confidence levels using a one-tailed test.

Question 7. Since 1981, the number of individuals in female-headed families in poverty grew by 9 percent, yet the poverty gap for these families increased by 15 percent. What would lead to this result? Could a substantial part of this be attributable to the AFDC budget cuts?

The Bureau does not have the necessary data to investigate whether the increase in the poverty gap is directly attributable to AFDC budget cuts. Our data do show that more than half of poor female-headed families receive AFDC benefits, and that the average amount of public assistance received by these families declined slightly between 1981 and 1983 (in constant dollars). Because AFDC benefits are not indexed, and the poverty thresholds are, the aggregate poverty gap for this group would tend to increase over time if all other relevant variables were held constant. All other relevant variables were certainly not constant during this period.

Question 8. We have been told that after medical care is included in the income levels, your data show that there is not a single poor person over age 65 in the State of New York. Is this true? Does the Census Bureau defend a measure which leads to such result?

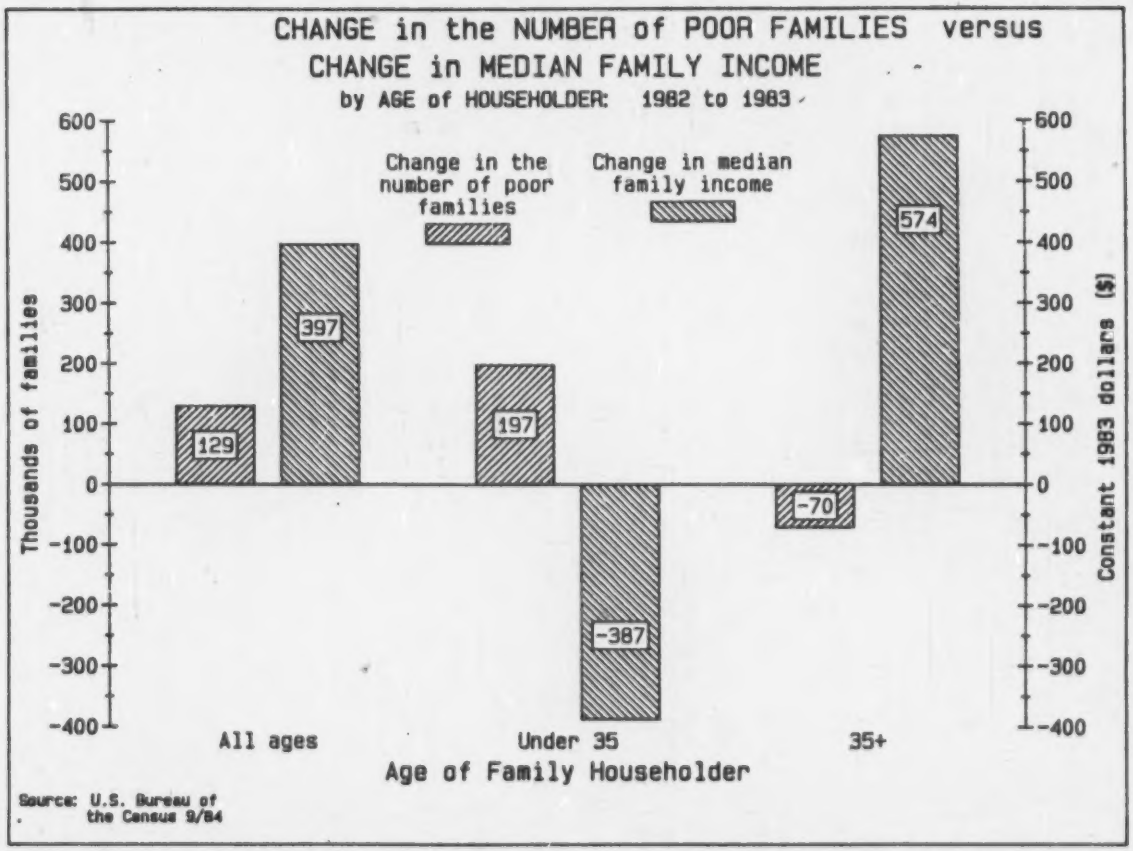
This conclusion is essentially true because the market value approach assigns a very high value in certain states to the medical benefits received by persons covered by medicare and medicaid. The Bureau does not defend these figures, but presents them as one of a set of experimental estimates based on three valuation methodologies. The three methodologies—market value, recipient value, and poverty budget share—have been widely discussed. The Bureau has been careful in Technical Paper 52 to point out that the use of the market value approach to value the benefits of medical care programs can lead to extremely high valuations of medicare and medicaid benefits.

Question 9. The measurement of poverty is a determination of whether family income is below a poverty threshold which grows from year to year according to prices. Thus, the change in poverty from year to year is essentially a measurement of what happens to people's real income at the bottom end of the income spectrum. Since real incomes overall grew by 1.6 percent, would this not reduce the amount of poverty or decrease the poverty gap?

Although the median income of families in constant dollars increased by 1.6 percent from 1982 to 1983, there were differential changes by type of family. There was no increase in income among married-couple families with a wife not in the paid labor force, and there was no increase in income among families with a female householder, no husband present. The relationship between median family income and the poverty rate is necessarily inexact because median family income does not depend upon the shape of the income distribution below (or above) the median.

Question 10. We have been told that this is the first time median incomes increased at the same time that the number of people in poverty increased. Is this true? Why did this happen? Did the budget reductions play a role in this precedent-setting event?

It is true that 1983 was the first year since the Bureau started compiling poverty data that both the number of poor persons and median family income increased. Historically, these two measures have moved in opposite directions. Although on the surface last year appears to contradict the historical trend, the relationship is still apparent when the families are viewed by age of householder. Families with a householder under 35 years experienced an increase in poverty and a decline in real median family income, while those with a householder 35 years and older experienced an increase in real median family income and a decline in poverty. This is illustrated in the attached chart. Our data do not provide any way of relating recent budgetary actions to poverty in general or explain why there was such a difference by age of family householder.



Source: U.S. Bureau of the Census. Prepared 9/5/84 as part of response to questions asked by the Committee on Ways and Means.

Question 11. For 1979 to 1983 could the table in question 3 be disaggregated into benefits for individuals and families below the official poverty thresholds and for those above? In addition, calculate the total amount of means-tested cash and noncash, non-medical benefits per person below poverty.

Data in the table referred to in Question 3 were derived from administrative sources, not from the March Current Population Survey, the source of the official poverty estimates. Separating the amounts received by populations above and below the poverty level cannot, therefore, be done directly. The total amounts of noncash benefits (both means and nonmeans-tested) and food and housing benefits received by persons above and below the poverty line can be approximated using data from Table 3 of Technical Paper 52 and Tables 3, 6, 9, and 12 of Technical Paper 51. Estimates for all means-tested benefits and for cash assistance cannot be made from existing tabulations. We have used the data in the Technical Paper tables to estimate the proportion of all noncash benefits and food and housing benefits that were received by persons in poverty. The estimates are provided in Table A. The proportions were also used to calculate the per capita amount of food and housing benefits received by the poverty population based on the market value of the benefits.

TABLE A.—PROPORTION OF THE MARKET VALUE OF NONCASH BENEFITS RECEIVED BY PERSONS BELOW AND ABOVE THE POVERTY LEVEL AND PER CAPITA AMOUNT (IN 1983 CONSTANT DOLLARS) RECEIVED BELOW THE POVERTY LEVEL, 1979 TO 1983

Year and characteristic	All noncash benefits	Food and housing benefits
1983		
Total	100.0	100.0
Below poverty	38.1	68.4
Above poverty	61.9	31.6
Per capita amount below poverty	X	$355
1982		
Total	100.0	100.0
Below poverty	37.5	68.3
Above poverty	62.5	31.7
Per capita amount below poverty	X	$348
1981		
Total	100.0	100.0
Below poverty	36.5	62.6
Above poverty	63.5	37.4
Per capita amount below poverty	X	$364
1980		
Total	100.0	100.0
Below poverty	37.4	58.5
Above poverty	62.6	41.5
Per capita amount below poverty	X	$356
1979		
Total	100.0	100.0
Below poverty	34.4	53.8
Above poverty	65.6	46.2
Per capita amount below poverty	X	$339

X = Not applicable.

Source: U.S. Bureau of the Census. Prepared September 5, 1984 as part of response to questions asked by the Committee on Ways and Means.

Question 12. Please redo the attached table with the earned income tax credit treated as income if the credit exceeds Federal income tax liability.

Based on an earlier telephone request from Mr. Wendell Primus of your staff, we computed the effect of this treatment of the earned income tax credit on poverty for 1980 and 1982. These data are shown in Table B. We do not have similar computations for 1979 and 1981.

TABLE B.—NUMBER OF PERSONS BELOW THE POVERTY LEVEL AND POVERTY RATES FOR SELECTED INCOME CONCEPTS, 1980 AND 1982

[Numbers in thousands]

Income concept	1982		1981	
	Number	Rate	Number	Rate
Money income less Federal and State income taxes and payroll taxes, but including excess earned income tax credits	37,023	16.1	30,797	13.7
Money income, food stamps, and public housing less Federal and State income taxes and payroll taxes, but including excess earned income tax credits	34,101	14.9	27,358	12.2

Question 13. Please do Tables 2 and 3 for families and unrelated individuals below 125 percent and 150 percent of poverty, respectively.

We regret that we are unable to provide you with this information at this time because of a shortage of resources. We have stated in several responses to earlier requests from your staff that commitments to produce several reports covering income, poverty, and the Survey of Income and Program Participation prevent our producing special tabulations of this type now.

Question 14. Add 1983 to Tables 1, 2 and 3 using the 1982 tax model with appropriate adjustments for the Federal 1983 tax structure.

Aside from the resource constraints that we have already mentioned, we think that it would be statistically incorrect to use our 1982 tax simulation model to make estimates for 1983. We plan to provide these data for 1983 as soon as the information is available to create a tax simulation model that reflects the Internal Revenue Service statistics on taxes paid for 1983.

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC, October 1, 1984.

Dr. JOHN KEANE,
Department of Commerce,
Bureau of the Census, Washington, DC.

DEAR DR. KEANE: We appreciate your prompt response to our recent questions. Given your responses, we have several follow-up questions that are attached.

Thank you for your cooperation in this matter.

Sincerely,

CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight.

HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation.

Enclosure.

FOLLOWUP QUESTIONS FOR THE CENSUS BUREAU

1. Precisely what level of confidence can you assign to the hypothesis that the poverty rate changed between 1982 and 1983 under each of the nine alternative measures of poverty as well as under the official measure? Please provide this information regardless of the level, even if it falls below the 90% level.

2. The hypothesis that an alternative measure of poverty changed at a different rate from the official measure of poverty can be tested by comparing the rates of change of the two measures. For each of the nine alternative measures of poverty, precisely what level of confidence can be assigned to the hypothesis that the meas-

ure changed at a different rate than the official measure over the period 1980 to 1983?

3. Please do question 13 from the earlier correspondence when you have the resources.

4. Also, do the attached tables with the earned income tax credit treated as income if the credit exceeds Federal income tax liability.

TABLE 2.—NUMBER AND PERCENT OF HOUSEHOLDS BELOW THE POVERTY LEVEL PAYING TAXES BY SPECIFIED TYPE OF TAX AND TYPE OF HOUSEHOLD: 1979 TO 1981

[Numbers in thousands]

Type of tax	Number				Percent			
	1982	1981	1980	1979	1982	1981	1980	1979
Family households								
Total	7,338	6,670	6,036	NA	100.0	100.0	100.0	100.0
Paying:								
One or more taxes	5,172	4,839	4,313	NA	70.5	72.5	71.5	NA
Federal income tax	515	486	251	67	7.0	7.3	4.2	3.1
State income tax	1,111	1,031	817	NA	15.1	15.5	13.5	NA
Payroll tax	3,965	3,703	3,276	2,533	54.0	55.5	54.3	52.1
Property tax	2,690	2,546	2,245	NA	36.6	38.2	37.2	NA
Nonfamily households								
Total	4,197	4,387	4,301	NA	100.0	100.0	100.0	100.0
Paying:								
One or more taxes	2,237	2,423	2,300	NA	53.3	55.2	53.5	NA
Federal income tax	334	231	165	99	8.0	5.3	3.8	2.5
State income tax	402	347	367	NA	9.6	7.9	8.5	NA
Payroll tax	958	941	866	829	22.8	21.5	20.1	20.8
Property tax	1,432	1,708	1,611	NA	34.1	38.9	37.5	NA

NA—Not available.

TABLE 3.—AGGREGATE AMOUNT OF TAXES AND PERCENT OF INCOME PAID IN TAXES BY TYPE OF TAX AND TYPE OF HOUSEHOLD: 1979 TO 1981

[Aggregates in millions of dollars]

Type of tax	Aggregate amount				Percent of income			
	1982	1981	1980	1979	1982	1981	1980	1979
Family households								
Total taxes	2,960.0	2,468.0	1,768.3	NA	8.0	7.6	6.6	NA
Federal income tax	117.2	105.0	60.7	31.5	0.3	0.3	0.2	0.1
State income tax	67.2	60.9	45.1	NA	0.2	0.2	0.2	NA
Payroll tax	1,287.7	1,193.8	833.3	636.8	3.5	3.7	3.1	3.0
Property tax	1,466.7	1,091.2	813.2	NA	4.0	3.3	3.0	NA
Nonfamily households								
Total taxes	813.2	771.2	583.4	NA	6.4	6.1	5.1	NA
Federal income tax	41.0	24.4	12.9	3.6	0.3	0.2	0.1	—
State income tax	18.0	13.7	13.8	NA	0.1	0.1	0.1	NA
Payroll tax	157.1	141.4	107.7	92.1	1.2	1.1	0.9	1.0
Property tax	593.9	590.8	446.1	NA	4.7	4.7	3.9	NA

NA—Not available.
—Less than 0.1 percent.

U.S. DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington, DC, November 13, 1984.

Hon. CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, Washington, DC.

DEAR MR. RANGEL: This responds to your cosigned letter concerning the recently released Census Bureau data on poverty and noncash benefits. We are enclosing answers to the follow-up questions.

Two of your questions concern changes in poverty levels. For many years, the Census Bureau has used the same set of statistical criteria for hypothesis tests of survey data. Changes in the data which are statistically significant at the 95-percent confidence level or higher are not qualified in any way. Changes that are significant between the 90- and 95-percent confidence level are qualified by the phrase, "some evidence of a change." Changes below the 90-percent confidence level are not considered statistically significant because the Bureau does not regard them to be of sufficient reliability.

If you require further assistance, please have a number of your staff call Mr. Gordon Green, Population Division, on 763-7444.

Sincerely,

JOHN G. KEANE,
Director, Bureau of the Census.

Enclosure.

Question 1. Precisely what level of confidence can you assign to the hypothesis that the poverty rate changed between 1982 and 1983 under each of the nine alternative measures of poverty as well as under the official measure? Please provide this information regardless of the level, even if it falls below the 90% level.

The confidence levels based on two-tailed tests of the 1982 to 1983 difference in each of the poverty measures are shown in the table below.

	Official poverty definition	Valuing food and housing benefits only			Valuing food, housing, and all medical benefits			Valuing food, housing, and medical benefits, excluding institutional expenditures		
		Market value	Recipient value	Poverty budget share value	Market value	Recipient value	Poverty budget share value	Market value	Recipient value	Poverty budget share value
1983	15.2	13.8	14.0	13.9	10.2	13.0	12.9	10.5	13.2	12.9
1982	15.0	13.4	13.7	13.6	10.0	12.7	12.5	10.3	12.8	12.5
Difference	0.2	0.4	0.3	0.3	0.2	0.3	0.4	0.2	0.4	0.4
Confidence level[1] (percent)	63.7	94.1	84.1	84.1	72.0	85.6	94.9	71.1	94.6	94.9

[1] None of the confidence levels shown in this table meet the Census Bureau criteria for statistically different changes (95 percent confidence levels). However, confidence levels between 90 percent and 95 percent indicate some evidence of a change.

Note: The data in this table were prepared at the request of Honorable Charles B. Rangel and Honorable Harold Ford of the House Committee on Ways and Means in their cosigned October 1, 1984 letter. Bureau of the Census: October 1984.

Question 2. The hypothesis that an alternative measure of poverty changed at a different rate from the official measure of poverty can be tested by comparing the rates of change of the two measures. For each of the nine alternative measures of poverty, precisely what level of confidence can be assigned to the hypothesis that the measure changed at a different rate than the official measure over the period 1980 to 1983?

The confidence levels based on two-tailed tests on the differences in the change of each alternate measure compared to the change of the official poverty definition over the period 1980 to 1983, are shown in the table below.

	Official poverty definition	Valuing food and housing benefits only			Valuing food, housing, and all medical benefits			Valuing food, housing, and medical benefits, excluding institutional expenditures		
		Market value	Recipient value	Poverty budget share value	Market value	Recipient value	Poverty budget share value	Market value	Recipient value	Poverty budget share value
1983	15.2	13.8	14.0	13.9	10.2	13.0	12.9	10.5	13.2	12.9
1980	13.0	11.1	11.4	11.4	7.9	10.4	10.4	8.1	10.6	10.4

	Official poverty definition	Valuing food and housing benefits only			Valuing food, housing, and all medical benefits			Valuing food, housing, and medical benefits, excluding institutional expenditures		
		Market value	Recipient value	Poverty budget share value	Market value	Recipient value	Poverty budget share value	Market value	Recipient value	Poverty budget share value
Change	2.2	2.7	2.6	2.5	2.3	2.6	2.5	2.4	2.6	2.5
Difference		0.5	0.4	0.3	0.1	0.4	0.3	0.2	0.4	0.3
Confidence level [1]		+95	+95	+95	61.6	+95	+95	71.5	+95	+95

[1] Confidence levels under 95 percent do not meet the Census Bureau criteria for statistical significance and are underlined. Confidence levels greater than 95 percent are shown as 95 plus percent.

Note: The data in this table were prepared at the request of Honorable Charles B. Rangel and Honorable Harold Ford of the House Committee on Ways and Means in their cosigned October 1, 1984 letter. Bureau of the Census: October 1984.

Question 3. Please do question 13 from the earlier correspondence when you have the resources.

Question 13 in your previous request concerned calculation of the number of households below 125 and 150 percent of the poverty level paying taxes and the amount paid for the years 1979 through 1982. We do not anticipate that members of our staff will be available to work on this request during the current fiscal year. Work on the Survey of Income and Program Participation and modification of programs related to the redesign of the Current Population Survey sample will require all available time for the staff members qualified to perform the necessary computer programming. We suggest that you contact the Congressional Budget Office or the Congressional Research Service concerning this request. The Congressional Budget Office has purchased the public use file for the March 1983 CPS and the Congressional Research Service has purchased similar data files for March 1980, March 1981, and March 1982. These files can be used to compute estimates of taxes paid by households with incomes below these specific multiples of the poverty level.

Question 4. Also, do the attached tables with the earned income tax credit treated as income if the credit exceeds Federal income tax liability.

The estimates of households paying taxes and amounts of taxes paid shown in Tables 2 and 3 enclosed with your letter do include tax credits in excess of the Federal tax liability as income.

Mr. GUARINI. Thank you and I wish to thank both of you gentlemen, Dr. Keane and Dr. Green, for giving us the benefit of your thoughts.

Mr. KEANE. You are welcome.

Mr. GUARINI. The subcommittees stand adjourned.

[Whereupon, at 12:15 p.m., the subcommittees were adjourned.

POVERTY RATE INCREASE FOR 1983

THURSDAY, SEPTEMBER 20, 1984

HOUSE OF REPRESENTATIVES, COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON OVERSIGHT JOINT WITH SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION,

Washington, DC.

The subcommittees met at 2:10 p.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (chairman of the Subcommittee on Oversight) and Hon. Harold Ford (chairman of the Subcommittee on Public Assistance and Unemployment Compensation) presiding.

Chairman RANGEL. The Subcommittee on Oversight and the Subcommittee on Public Assistance will come to order. We are having this hearing today on the increase in the national poverty rate.

Poverty has increased each and every year for the past 5 years. This year the official poverty rate rose from 15 to 15.2 percent of the population, a fact which the President claims is no appreciable growth, even though it means 868,000 more Americans have been pushed into poverty in 1983 alone.

Although the President maintains that his policies have not victimized the needy, study after study have documented their terrible impact. Today 35 million Americans live in poverty, which is the highest number recorded since 1964. The President asserts that his policies have increased spending for the disadvantaged, although the facts appear to be otherwise.

Data from the Congressional Budget Office shows spending for low-income programs as adjusted for inflation and unemployment have been reduced by over $16 billion. Even without adjustment for inflation and unemployment, many low-income programs are still below the pre-Reagan administration levels.

In addition, the number of poor persons being aided is not up, but down, in most low-income programs. For example, nearly 3 million fewer children eat school lunches. There are fewer low-income persons in employment and training programs and fewer mothers and children are provided health services at community health centers.

The President has argued that his tax policies are equitable, even though tax burdens for the poor have nearly doubled over the past 4 years, rising from 5.5 percent of income in 1980 to 10.1 percent in 1984.

The President also says that poverty has grown more slowly in his administration than in the past, a claim, even if true, which

would be of little comfort to those who find themselves in deprivation.

Today my colleague Harold Ford and I—and we are fortunate to be joined by the chairman of the full committee—are releasing a new study entitled "Families in Poverty: Changes in the Safety Net," which further belies the administration claims. The study clearly shows that: One, there has been a real decline in disposable income of poor families between 1980 and 1984; two, that these families have not been able to maintain even minimum standards of living; and three, at a time of growing poverty, Federal expenditures on means-tested programs for low-income Americans have declined.

This afternoon we have invited David Stockman, the Director of the Office of Management and Budget, to testify on this matter on behalf of the administration. And Mr. Stockman, our question to you is basic and simple: What does the President propose to do about growing poverty in this great country of ours?

We have also asked two authors of "The Reagan Record," published by the Urban Institute, which is a nonpartisan association, to discuss their analysis of these issues. At our request, Dr. Peter Gottschalk, a visiting fellow at Brookings Institute, has submitted written testimony presenting new projections of poverty.

The facts are crystal clear: Poverty in America is unfortunately growing at an alarming rate. It is a national problem and it demands a national response.

I am pleased to present the chairman of the Subcommittee on Public Assistance, Congressman Harold Ford of Tennessee.

Chairman FORD. Thank you very much, Mr. Chairman.

I, too, would like to welcome Mr. Stockman, the Director of OMB, to the committee today. Now, Mr. Stockman, the administration promised us several things before and after the 1980 election. They promised us a balanced budget, which we do not have. They promised us a tax cut which went to the rich in this country and a safety net for the poor.

President Reagan may believe that there is not one single fact or figure to substantiate the charge that his policies have hurt the poor, but today we learn, as we have time and time again over the past 3 years, that the administration's cards are in fact stacked against the poor and the safety net is not there to give that protection to the poor of this Nation.

Fact one: The General Accounting Office has reported that 493,000 families, including nearly 1 million children, lost their AFDC benefits and Medicaid coverage because of the 1981 budget cuts.

Fact two: A Congressional Budget Office study has revealed that spending cuts have hit low-income families the hardest. Roughly 40 percent of the Reagan budget cuts have affected families earning under $10,000 a year.

Fact three: The purchasing power of AFDC benefits has declined by 33 percent between 1970 and the year 1984.

Fact four: The Congressional Research Service has reported that poverty rose a full percentage point between 1981 and 1982, and that the AFDC cuts forced some 560,000 people into poverty.

Fact five: The Census Bureau has told us that over 35 million people are now living below the poverty level. Nearly 12 million of those people are children that live in this Nation. Not only is that number outrageously high; it is growing. Some 868,000 people joined the ranks of the poor in the year 1983.

Now, for doubters we need no further evidence to show that poor people have been harmed by the Reagan administration and that there has not been a safety net to protect the poor in this Nation.

Once again, we welcome you before the joint committees today, Mr. Stockman. But there are some questions that we would like for you and this administration to respond to.

And with that, Mr. Chairman, I would like to close.

Chairman RANGEL. Thank you.

Chairman Rostenkowski.

Chairman ROSTENKOWSKI. Thank you, Mr. Chairman.

I certainly want to welcome Mr. Stockman back to the committee. He has been a guest here on many occasions and I might say a very informative guest. He has served with us in the Congress.

I would like to suggest, Mr. Stockman, that, all things being unequal, you will not be in that chair on January of next year. All things being equal, maybe you will be in that chair next year.

I am looking forward, really, to solving the problems of the poor, and I think that in capable hands—the subcommittee chairmen on Oversight and Public Assistance, Mr. Rangel and Mr. Ford, are sincere in their efforts.

I know the one question I am concerned with more than anything else, and I would hope that you would make an observation in your presentation as to just what you think we will have to do next year with respect to revenues. I do not think my head is in the sand, Mr. Stockman. We have got problems that we are going to have to face regardless of who the President is, and anybody, in my opinion, who is telling the Nation today that we will not have to raise revenue or raise taxes next year in my opinion has his head in the sand.

So if in your testimony or if in answering some of the questions proposed to you you could make some observations, I would really appreciate that.

Chairman RANGEL. Is there any member seeking recognition? Mr. Matsui.

Mr. MATSUI. Thank you.

Mr. Stockman, I also want to thank you for appearing before us today. I might point out, that when I got on this committee in 1981, you testified before us that spring and said that in 1984 we would have a balanced budget if we adopted the President's program. And I think most people acknowledge that the President's program was adopted pretty much intact.

But I am concerned today about the statement you made last year to us when you appeared before us on November 3. At that time, as you recall, in response to a question you said that you would be happy to take an invitation to come back here, which you have done today, and testify in the spring—of course, it is the fall at this time—because you were absolutely confident that the poverty rate was going to decline dramatically for 1983, for two reasons:

a lower inflation rate and 3 million more people had jobs at that time.

And I hope in your opening testimony you will respond to us and tell us whether in fact the poverty rate has declined dramatically for 1983. If not, could you perhaps explain why that did not occur.

Thank you, Mr. Chairman.

Chairman RANGEL. Thank you.

Mr. Stockman, the last time that you appeared before this committee you had quite a long statement and we had a problem because your schedule did not permit you to stay as long as you and the members of the committee would like. I do not know what timeframe you are working with today, but again, we do have a rather long statement. And I would want you to know, if there are no objections from the committee members, that your full statement will appear in the record and that you would not have to go through each page, in order to respond to some of the questions which the members have.

And without objection, the full statement will appear in the record. You may proceed as you find most convenient for you, and thank you for appearing.

STATEMENT OF HON. DAVID A. STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. STOCKMAN. Thank you very much, Mr. Chairman and members of the committee.

Being aware of your deep and abiding interest in the factual and analytical aspects of the poverty issue, as opposed to the merely political, as I could tell from the recitation of facts presented by Chairman Ford, I have prepared, as you indicated, a very lengthy statement that tries to provide some new information and perspective to the problem that we have been debating.

But I think, as you have indicated, it would be more desirable to include this statement in the record and try to summarize some of the highlights that I feel are important to bring to the attention of this committee.

In your opening statement, you pointed to the growing level of poverty in this country and the urgent need to address it. I would begin by merely amending your statement: What you said is indeed true, but poverty might well be considered a bipartisan problem. The poverty count has been rising each and every year since 1978. It stood at a level of about 25 million, I believe, in 1976, when the Ford administration left office, it rose steadily throughout the Carter period to 31 million by 1981. Then, with the recession and the contraction that we experienced in the economy in 1982 and 1983, the poverty count continued to climb somewhat, to 35 million today.

So over the last 8 years, under both Democratic and Republican administrations, under periods of recovery, inflation, recession, and now the beginning of the new recovery, the poverty number has been rising. There have been many differences in policy during that period, but the one thing that remains the same is that the number of people below the poverty level has risen, and the rate of

poverty in this country is no longer declining, as it was for a decade and a half prior to the mid-1970's.

So I take your interest to be one that recognizes the longer term generation of this problem and one that is raised in a bipartisan spirit in terms of some of the policy actions that might be necessary to cope with it in the future.

I would like to note for the committee today that I believe the four-category framework that I presented last fall to try to better understand and analyze the composition of poverty in this country and therefore what particular policy steps might be needed to address it was a good one. It was an effort to overcome the rather stale and simplistic argument that we have had from time to time up here and elsewhere as to whether the best cure for poverty was more economic growth on the one hand or more transfer payment programs on the other. If you look at poverty in terms of the composition and the subgroups that make up the poverty population, you will see that neither of these routes alone can hope to address the problem.

I would note, for instance, in the 35 million poverty count that you mentioned for 1983, about 11 percent of that count consists of elderly citizens. They obviously are not in the work force; are little affected by economic growth; and are heavily dependent on social insurance and other transfer payments. For this portion of the poverty problem, we need to be thinking about our Federal programs and our transfer payments systems and how they work and whether they are adequate.

I would note that another one-third of that 35 million consists of people who live in female-headed households. There both sides of the argument are relevant. There is a small fraction of the female-headed population in our country that has relatively average or even higher incomes than the average earned in the marketplace; and to the extent that poverty is to be reduced there, we need more jobs and more economic growth.

But the vast proportion of households in the female-headed category, this one-third of the poor, consists of families that are almost entirely dependent on transfer payments, AFDC, and the related programs. It seems to me here there is a question both of adequacy of the benefits provided and also of the incentives that may result from those programs. We need to analyze both aspects.

About half of that 35 million poverty count consists of people who live in male-headed households and single adult individuals. Because of the way our programs are structured in this country, very few in this population are eligible for transfer payments on any kind of continuing basis, either of the social insurance variety, except temporarily for unemployment, or of the public assistance or means tested variety.

So it seems to me that in this group the key issue is economic growth: How do we create more jobs? How do we keep the level of real incomes rising? That has to be the major focus, the major direction of the cure for the half of the poverty population that is composed of male-headed households or consists of adult single individuals.

The remaining small portion, 4 percent, consists of young single individuals under 24, and here economic growth is relevant, obvi-

ously, but so is time. I think most of us have clearly observed that the rate of unemployment declines drastically and dramatically as people move from an 18-year-old to a 24-year-old to a 28-year-old age group; and that if we can keep the economy growing and recognize the entrance and transition problems in getting into the labor force, that is where the focus of our concern ought to lie.

I would like to begin today in terms of analyzing the 1983 poverty numbers and the policy issues that I know some of you want to raise, by looking at these four categories and some of the new information that I hope will be provided to the committee today.

I would first observe that there has been and there remains a serious legitimate argument about the effects and the desirability of specific policy changes in income transfer payment and tax policies that were implemented over the last 4 years. I do not claim that any political faction, including ours, has a monopoly on truth. Corrections, adjustments, and improvements to the Nation's social policies are therefore a continuing process.

Nevertheless, some critics have charged that the overall impact of the many specific policy changes implemented by the Reagan administration has been a sweeping shift in the distribution of national income in a manner adverse to the poor. That was more or less suggested or overtly claimed in some of the opening statements; to restate, the Reagan administration policies have made the rich richer and the poor poorer.

Anecdotal evidence in favor of and against this proposition has been copiously offered, but the weight of systematic quantitative data clearly points, I would suggest to the committee today, in a single direction. The elaborate system of progressive tax rates, social insurance benefits, and means-tested assistance programs developed over the last 45 years to lessen income inequalities in this country remains solidly in place and is still doing the job.

Table 1 in my testimony provides the facts which I think dramatically and thoroughly refute the charge that Reagan administration policies favor the rich and harm the poor. These data are for 1983, by which time most of the administration's entitlement benefits reforms and tax reductions had been fully implemented, and they show that the Nation's tax and transfer payment programs had the following redistributive effects:

The income of the poorest one-fifth of U.S. households, was increased by $90.1 billion by national tax and transfer payments policies, resulting in a 996 percent gain in per capita income over the level of private money incomes before the impact of Government policies.

By contrast, the income of the richest one-fifth of U.S. households was reduced by $173 billion due to national tax and transfer payment policies, resulting in a 19 percent reduction in per capita income among the upper one-fifth of households.

Further, the ratio of private money income—that is, income people receive from jobs and investments before the Government levies any taxes or makes any benefit payments to them—the ratio of private money income per capita between the poorest one-fifth and the richest one-fifth of households was 51 to 1, purely on a private money income basis. But after factoring in the impact of taxes

and transfer payments, the per capita income ratio between the top one-fifth and the bottom one-fifth was reduced to less than 4 to 1.

In other words, before Government intervened to tax some people and extend benefits to others, the 1983 ratio was 50 to 1; after Government intervened, with all of the Reagan administration tax, entitlement, and transfer payments policy changes fully in effect, the 1983 ratio of aftertax and aftertransfer payment income between the top one-fifth and the bottom one-fifth was 4 to 1.

Now, it seems to me that when you shift the outcome in our society before Government action from 50 to 1 to after Government action to 4 to 1, it is very hard to make the proposition that the effect of policies in place in 1983 was to make the rich richer and the poor poorer. That is simply nonsense.

The opposite was happening in a very major way. The net effect of national tax and transfer payment policies in 1983 was to redistribute enormous sums from the top to the bottom of the income ladder. The comparatively modest reforms of these policies enacted in 1981 have not appreciably changed the set of national income redistribution policies that have evolved over the last 50 years.

Indeed, the only tenable conclusion from the data in table 1 on page 5 of my testimony is that under Reagan administration policies the poor are still being helped impressively and the rich are still helping to pay for the safety net on which the less fortunate depend. If the magnitude of income redistribution from top to bottom of the income scale is one measure of fairness, then the fundamentals of national fairness remain fully intact.

I would just urge the members of the Ways and Means Committee to look at this data in the table on page 5, because I think there you capture, probably in a way that has not been presented to this committee before, in a very clear and vivid way, the impact of the policies that were in place in 1983.

If you look at the top bank under the column for the lowest one-fifth of U.S. households, you can see that their beginning income earned in the marketplace was $11 billion. But then when you factor in cash transfer payments ranging from Social Security all the way down through AFDC, SSI, and so forth, their incomes were increased $63 billion as a result of these programs.

If you further factor in the cash value of food stamps and housing and Medicaid and so forth, the incomes of the lowest one-fifth were increased by another $28 billion, so that overall incomes among the lowest one-fifth of households after taxes and transfers were $90 billion higher than they started with in the private economy, a gain of 834 percent.

Looking over at the highest one-fifth of households, under the aggregate income part of the table you see the opposite effect of governmental policies: a $173 billion, or almost 20 percent reduction in income due to taxes and transfers, and that was distributed down the income spectrum.

Similarly, on the bottom part of the table it shows per capita income, and this simply translates aggregate income data into a more understandable form—dollars per person or per capita. The lowest one-fifth of households started with only $317 per capita private money income before the effect of governmental policies. That

income was increased by over $3,000 per capita as a result of the various kinds of transfer payments that were made in 1983, or by almost 1,000 percent for the lowest one-fifth of U.S. households.

By contrast, the richest one-fifth of U.S. households started with per capita incomes in the private economy of $16,128. That was reduced by over $3,000 by progressive taxation net of any benefits received, or by almost 20 percent.

Now, it seems to me that is the essence of the story, and we could argue whether on the margins some of the changes that have been made have slightly tilted one way or the other. But what is seen in some of the propaganda that is constantly issued and some of the political carping that inevitably rises up in this process is a failure to understand what is in the base or the fundamentals of our national policy as opposed to the small changes that have been made on the margin.

And my point here today is that the fundamentals remain in place. We can argue for a long time with good and bad reasons about the changes on the margin, but for anyone to make sweeping roundhouse criticism that suddenly the march of the last 50 years of history has been reversed, that we have a policy in effect in this country that is helping the rich and hurting the poor, simply cannot be sustained, simply does not link or connect with the true facts.

Now, the second point I would like to make, Mr. Chairman and members of the committee, is to note that, while the foregoing figures cover all U.S. households, when they are decomposed to focus on specific population subgroups which allegedly have been harmed especially by Reagan administration policies, the picture is even clearer.

Of course, the two population subgroups I refer to are the elderly and female-headed households, many of them dependent on Government assistance and means-tested benefits. Now, in the case of the elderly the net effect of national tax and transfer policies in effect in 1983 was to substantially improve both total incomes and the relative position of the elderly within the national income distribution.

Specifically, total and per capita income among the elderly was more than doubled as a result of the impact of tax and transfer policies. The number of elderly in the lowest one-fifth of U.S. households declined by nearly 8 million, or 59 percent, due to the effects of these policies, and the share of elderly persons found in the lowest one-fifth of U.S. households dropped from 42 percent of all elderly in the lowest one-fifth of U.S. households on the basis of private money income to only 17 percent after you factor in transfer payments and the effects of taxes paid by the elderly.

This is shown in table 2 on page 7 of my testimony, and I think the numbers are pretty clear. In the aggregate, the elderly earned about $155 billion in private money income from investments and from labor income in 1983. After the transfer payments and taxes are factored in, their income rises to $318 billion, an increase of 105 percent.

On a per capita basis, the elderly had $5,016 per capita in private money income in 1983. After paying taxes and receiving the whole range of social insurance and means-tested benefits, per capita

income among the elderly doubled to over $10,000. The other figures that I referred to in terms of reducing the share of elderly in the lowest one-fifth of households are shown in lines 3 and 4 of table 2.

More importantly, if you look on page 8 you can see the impact of Government programs on the poorest of the elderly population in our society. This is shown in per capita terms. The first column is for the elderly members of the lowest one-fifth of U.S. households.

You can see that their private money income averaged only $428 in 1983 per capita. Taxes and cash transfer payments raised that by $3,393 per capita. When you factor in inkind benefits—housing, medical, food, and so forth—income was further raised by nearly $2,000 per capita. Overall, elderly in the lowest one-fifth of households saw their private money incomes rise from $428 to over $5,800 as a result of Government policies—a 1,257 percent increase.

The elderly in the second fifth of households began in a better position with about $4,000 in private money income. The facts are not as dramatic, but still average per capita cash and tax effects add $2,273, inkind transfers add $1,500, bringing overall per capita income to $7,727, an increase of nearly 100 percent.

Only for the elderly who were in the top fifth of U.S. households, the clearly well-to-do or better-off elderly, does the tax and transfer payments system work the other way, as well indeed we might expect it should. Elderly in the top one-fifth of U.S. households began with per capita private money incomes of $23,098 in 1983. They paid almost $5,000 in taxes per capita, received small benefits per capita in inkind transfers, mainly Medicare, and ended up with $18,264 per capita or 21 percent less.

For the elderly as a whole and for those in the lowest income categories, it is clear that the tax and transfer payment system that was in effect in 1983, after the policy changes that we made, caused an enormous redistribution of income and level of support to those on the bottom end of the income ladder.

Now, some will argue, how have the 1983 numbers changed from what they would have been in 1981 under the policies of the previous administration, because, after all, none of the changes that we have made legislatively in 1981 had any impact on programs and people until 1982? Well, on page 9 in table 4 we have tried to provide this information.

Among the elderly, on an aftertax and transfer payment basis and in constant dollars, so that we take out the inflation and provide a real measure of the change in living standards and available real income, the elderly in every quintile, each of the five one-fifths of the population, were better off in real terms per capita in 1983 than they were in 1981.

On average, for all elderly households combined, incomes per capita were $9,587 in 1981. That rose to $10,289 in 1983, about a 7-percent improvement. And again, because that improvement occurred in each of the income quintiles or one-fifths, it cannot be said that this was improvement at the top averaged against deterioration at the bottom, giving a deceptive appearance.

As we have broken down the data, it is clear that elderly from the bottom to the top end of the income distribution were better off

in 1983 in real terms after factoring in taxes and transfer payments than they were in 1981.

Now, the other group that I would like to turn to is the female-headed household category and, as I indicated earlier, they comprise one-third of the entire poverty population in this country. Census data show similar trends to what I have just described for the population as a whole and for the elderly in the case of female-headed households.

As a whole, this group gained moderately in aggregate and per capita income as a result of tax and transfer payment policies in effect in 1983. But the gains for those in the lowest end of the income distribution were quite large and dramatic.

Among those in the lowest quintile, incomes for female-headed housholds were raised by nearly 1,200 percent per capita as a result of $13.4 billion in net transfer payments. Among those in the second lowest quintile, incomes were raised 43 percent per capita as a result of $16.9 billion in net transfer payments. This data is shown on page 10 of my testimony.

I would also note that a comparison of aftertax and transfer incomes among female-headed households between 1981 and 1983 shows that the redistributive effects that were in place in 1981 in the policies of the prior administration and many administrations before that were preserved over 1982 and 1983, and that indeed per capita income after taxes and transfer benefits improved for all income quintiles in the female-headed category.

This contradicts the frequently made charge—and I think I heard it here today—that female-headed households, and especially those on the lower end of the spectrum, have lost ground due to Reagan administration policy changes. Again, the data are on page 11 and I would like to go through the data very quickly.

The top bank, called "After Tax and Transfer Incomes," which provides a comparison in constant 1983 dollars or in inflation-adjusted terms, shows levels of per capita income for each of the five income quintiles from the lowest to the highest, so that we are not causing any illusion by averaging. And as you can see, in the case of each of the five quintiles there was a small gain in proportional or relative terms in real per capita incomes in 1983 compared with 1981.

Now, in the bottom bank I have isolated out purely the effect of taxes paid and benefits received by the female-headed household population; therefore private money income earned in the marketplace or otherwise received does not show up in these figures. This provides a pure comparison of the effect of policy changes since 1981 on the benefits system and the tax system faced by female-headed households.

And as you can see in the two lowest quintiles, female-headed households gained as a result of transfer benefits. In the three upper quintiles, they lose because they pay more taxes than they receive in benefits, just like the majority of the population.

But the key thing is to compare the gain for the lower end in 1981 versus 1983 and the loss due to taxes for the higher end in 1981 versus 1983. And what you see on line 6 is that everyone came out ahead in the female-headed household category in 1983 compared to 1981.

Those in the lowest quintile gained about $62 per capita in real income. Those in the second lowest quintile gained $88 in real income compared to where they were in 1981. And then those in the top three quintiles, who pay more taxes than they receive benefits, gained because they paid fewer taxes in real terms in 1983 than they did in 1981 as a result of the Reagan administration tax cuts.

So the taxpaying portion of the population gained, the benefit-receiving portion of the female-headed population gained, and I can find very little evidence in these numbers to suggest that some radical rupture has been made in the safety net or that our entire system of taxes and transfers is having adverse effects on this most sensitive part of the population.

Now, I will observe in concluding this point that I believe these data before you in table 6 provide a more accurate, more balanced, and more thorough analysis of the question than some of the reports which you see from time to time which simply take one program and a policy change that was made in it, calculates a benefit loss and implies that all of those who were in that program or in the target population group have therefore been harmed or fallen behind.

Now, the fact is we have dozens of programs, and what this analysis of Census Bureau data does is combine all of the programs and all of the facts at a level that finally boils down to per capita income. Therefore, in these numbers you have captured all of the changes that were occurring in this period—lower inflation, which improved the real value of AFDC benefits and the value of earned income in the marketplace and all of the changes in programs which both added to or subtracted from final income, depending on the case to case impact.

But when you sum them all up and bring them to a net number, clearly everyone in this category came out slightly ahead.

Now, this does not mean that we have solved the problem. These are very low numbers in terms of per capita incomes on the lower end of the income distribution. We cannot be satisfied that this is an adequate outcome for our society.

But I think these numbers clearly indicate that we have not retrogressed during the last 2 years, and the kind of exaggerated debate that some would generate over the changes that we have made simply is not warranted.

Well, Mr. Chairman, I have provided a variety of other information that relates to some of the points that I have made today in this presentation. But I would like to close by responding to the question of why in 1983 did the poverty rate increase slightly and the number of poor increase by 800,000 or so.

Some indication of the cause is given on page 14 in table 7. What we have done in this table is to start from the beginning and compute the number of people who would have been in poverty in 1981 and in 1983 based solely on the incomes that they earned or received in the private economy, before any Government program or benefit was taken into account.

You can see that in 1981 there were almost 53 million people below the official poverty line on the basis of private income only. By 1983, this had risen to nearly 56 million, so there was a 3.3 mil-

lion gain in the number of people below the poverty line on the basis of private money income, before we even get into the argument about benefit programs and who cut what and what harm or help did it do.

Now, in line 2 we show the impact in reducing the number of poor people, beginning with that private income only measure, in both years as a result of Government cash benefit programs such as AFDC, SSI, and so forth. And you can see that in 1981 Government benefit programs reduced the number of people below the poverty line by 20.4 million. In 1983, cash benefit programs reduced the number of people who would have been below the poverty line based on private incomes by 20.5 million, or by nearly an identical number.

So what you see on line 3, then, is, with some slight statistical adjustment for the method used here, more or less the official poverty count that all of you have been looking at and using in this committee: 32.2 million in 1981, 35.4 million in 1983, a gain of 3.2 million.

But my initial point here is that it is obvious that that increase in poverty resulted from the deterioration of the private economy between 1981 and 1983 as the unemployment rate rose from 7.5 percent in 1981 to 9.5 percent in 1983, as this country went through the recessionary correction, unfortunately but unavoidably necessary to deal with the runaway inflation of the prior period.

The point is, changes made in the income transfer programs did not substantially alter the efficacy or potency of these programs to reduce poverty between the 2 years. As you can see, the numbers are the same. It is the underlying number of poor people before Government transfers that rose.

Now, if you take this analysis one step further on line 4 and factor in the number of people who would be eliminated from poverty or below the poverty line on a statistical basis if we counted the cash value of inkind benefits—food stamps and school lunches and low-income energy assistance and Medicaid and housing, assisted housing, and so forth—in 1981 the sum total value of those inkind benefits would have removed 12.2 million people from the poverty count, bringing the total down to 20 million Americans. In 1983, the sum total effect of the inkind transfer payment programs would have removed 13.1 million people from the poverty count, or about 900,000 more.

Now, some of the major changes that we made in 1981 in the entitlement programs were in the inkind area, food stamp reforms, and so forth. But nevertheless, these were all in effect in 1983 and these census numbers clearly indicate that, even after the changes in 1983, the effect of these additional benefits, that have real value—and there should be no doubt about that—was to reduce the poverty count even slightly more than the same set of programs did in 1981.

Overall, on an aftertransfer payment basis, if you compute and count both the cash transfers and the inkind transfers, there was a 2,300,000 rise in poverty between 1981 to 1983. But it is very obvious that it traces all the way back to line 1 and the 3.3-million rise due to the underlying deterioration of the economy and private

money incomes, which are the base for the final income that people have available in our society.

Now, that outcome may lead, I suppose, to some partisan criticisms that the economic recovery program is not working. Well, I would say that nothing of the kind could be concluded from this data, because you have to remember that the poverty numbers are based on incomes for the entire year. And although now in hindsight we look back at 1983 as a booming recovery and 1982 as a declining recession, the fact is that the economy moved in a v-shaped pattern over those 24 months.

It got increasingly worse as you proceeded through 1982; it got rapidly better as you proceeded through 1983. But on average, there was very little difference in the unemployment rate in 1982 and the unemployment rate in 1983. In fact, they were both 9.5 percent, and there was very little difference in the level of employment in our society in 1982 and 1983, about 100 million.

The difference occurred within the year. At the beginning of 1983, the unemployment rate was high and it fell rapidly during the year.

To give you a very specific illustration of what this means for the poverty numbers, I would ask you simply to focus on the two groups where the rate of employment, the state of the economy, and the level of or the change or the rate of job creation is critically important—that is, male-headed households, which account for 50 percent of poverty, and single young individuals.

Between the first quarter of 1983 and the last quarter of 1983, the number of jobs held by people in that category increased by 5 percent. But if you compare the average for 1983 with the average for 1982, there is almost no change at all in the level of employment—about 1 percent. So my point here simply is that, since the poverty statistics measure the experience on total income and on employment for the entire year, the 1983 numbers do not yet reflect or capture the enormous amount of economic improvement that was occurring during the course of the year and, as a matter of fact, the conditions which the poverty statistics measure in 1983 were not dissimilar in any significant way to 1982.

Now, this suggests that when the 1984 data are computed we will have captured more fully in the annual poverty numbers the effects of the recovery that has been underway for 24 months. But rather than be as rash and premature and perhaps imprudent as I was last time, I will simply leave the topic with that observation, and maybe we will take a look at these numbers again next year and determine the appropriate conclusion.

Well, these are some of the points that I felt would be useful to bring to the attention of this committee. There is other material in my testimony, but I think at this point I would be very happy to take your questions.

[The prepared statement follows:]

STATEMENT OF HON. DAVID A. STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, thank you for this opportunity to appear again before your Subcommittees today to discuss poverty in America. As I stated last year, no topic is more deserving of public attention and concern. Your hearings last year helped ad-

vance our common understanding of this difficult issue and I hope that this year's forum will again serve that desirable goal.

In my statement before the Committee last November, I noted, like others before me, that the poor are not a homogeneous group. In particular, they are not uniformly affected by economic growth, Federal social insurance policies or means-tested entitlement programs. The old argument between more economic growth vs. more transfer payments is too simplistic to address the widely variant causes of poverty among different population sub-groups.

Thus, to facilitate the application of our knowledge about poverty to the resolution of related policy issues, I outlined for you a four-fold demographic characterization of the poor. That framework remains useful today to understand 1983 poverty levels and the impact of tax and transfer payments on poverty levels since 1981. Much of my statement is based on that framework.

I. THE POOR ARE BEING HELPED AND THE RICH ARE HELPING TO PAY

There have been and remain serious and legitimate arguments about the effects and desirability of specific policy changes in income transfer payment and tax policies implemented over the past four years. No political faction has a monopoly on truth. Corrections, adjustments and improvements to the nation's social policies are, therefore, a continuing process.

Nevertheless, some critics have charged that the aggregate consequence of the many specific policy changes implemented by the Reagan Administration has been a sweeping shift in the distribution of national income in a manner adverse to the poor; in effect, that Reagan Administration policies have made the rich richer and the poor poorer.

Anecdotal evidence in favor of and against this proposition has been copiously offered. But the weight of systematic quantitative evidence clearly points in a single direction: the elaborate system of progressive tax rates, social insurance benefits and means-tested assistance developed over the last 45 years to lessen income inequalities remains solidly in place.

Table 1 provides the facts which dramatically and thoroughly refute the charge that Reagan Administration policies favor the rich and harm the poor. In 1983—by which time most of the Administration's benefit reforms and tax reductions had been fully implemented—the nation's tax and transfer payment programs had the following redistributive effects:

The income of the poorest one-fifth of U.S. households was increased by $89 billion by national tax and transfer payment policies—resulting in a 992 percent gain in per capita income.

The income of the richest one-fifth of U.S. households was reduced by $179 billion due to national tax and transfer payment policies—resulting in a 20 percent reduction in per capita incomes.

The ratio of private money income per capita between the poorest and richest one-fifth of households was 51:1. After the impact of national tax and transfer payment policies, the per capita income ratio was reduced to less than 4:1.

In view of this evidence, it is impossible to argue that the Reagan Administration tax and entitlement policy changes have resulted in a drastic or even significant departure from past policy.

The net effect of national tax and transfer payment policies in 1983 was to redistribute enormous sums from the top to the bottom of the income ladder. The comparatively modest reforms of these policies enacted in 1981 have not appreciably changed the set of national income redistribution policies that have evolved over the past 50 years. Indeed, the only tenable conclusion from these data is that under Reagan administration policies the poor are still being helped impressively and the rich are still helping to pay for the safety net on which the less fortunate depend. If the magnitude of income redistribution from top-to-bottom of the income scale is one measure of fairness, then the fundamentals of national fairness remain fully intact.

TABLE 1.—EFFECT OF NATIONAL TAX AND TRANSFER PAYMENT POLICIES ON INCOME DISTRIBUTION IN 1983

Indicator	U.S. households	
	Lowest one-fifth	Highest one-fifth
Aggregate income (billions):		
Private money income	$10.8	$964.8
Effects of policy:		
Taxes and cash transfers	+62.7	−186.9
In-kind transfers	+26.4	+8.3
Income after taxes and transfers	99.9	786.2
Income change due to policy:		
Amount	+89.1	−178.6
Percent change	+825	−18.5
Per capita income:		
Private money income	317	16,129
Effects of policy:		
Taxes and cash transfers	+1,980	−3,392
In-kind transfers	+1,166	+168
Income after taxes and transfers	3,463	12,905
Income change due to policy:		
Amount	+3,146	−3,224
Percent change	+992	−20
Memo: Persons in households (millions)	28.9	60.9

The foregoing figures cover all U.S. households. When they are decomposed to focus on specific population subgroups which have allegedly been especially harmed by Reagan administration policies, the picture is even clearer: the policies in place in 1983 dramatically raised the income of poorer elderly and female-headed households. Moreover, per capita real incomes among these subgroups were generally higher in 1983 than in 1981.

The elderly: In the case of the elderly as a group, the net effect of national tax and transfer policy in 1983 was to substantially improve both total incomes and the relative position of the elderly within the national income distribution:

Total and per capita income were more than doubled due to tax and transfer policy effects.

The number of elderly in the lowest one-fifth of U.S. households declined 7.7 million or 59% due to these effects.

The share of the elderly persons found in the lowest one-fifth of U.S. households dropped from 42% on the basis of private money income to 17% after the effects of tax and transfer policies.

TABLE 2.—IMPACT OF NATIONAL TAX AND TRANSFER POLICIES ON TOTAL ELDERLY POPULATION IN 1983

	Private money income	After tax/transfers [1]	Difference	
			Amount	Percent
1. Aggregate income (billions)	$154.8	$316.5	+$161.7	104
2. Per capita income	5,016	10,254	+5,238	104
3. Number of elderly in lowest one-fifth of U.S. households (millions)	13.0	5.3	−7.7	−59
4. Percent of elderly in lowest one-fifth of U.S. households	42.1	17.1	−25.0	−59

[1] Includes in-kind transfers.

Among the lowest income elderly households the effects of national tax and transfer policies were even more dramatic: per capita incomes of elderly persons in the lowest one-fifth of U.S. households were raised by 1,253% and among those in the second lowest one-fifth of U.S. households incomes were raised by 95%. By contrast, per capita incomes among the elderly in the top twenty percent of U.S. households,

like their counterparts in the remainder of the population, were reduced by approximately one-fifth.

TABLE 3.—PER CAPITA INCOME EFFECT OF NATIONAL TAX AND TRANSFER POLICIES ON SELECTED ELDERLY POPULATION SUBGROUPS IN 1983

Per capita increase measure	Elderly distribution among U.S. households		
	Lowest one-fifth	Second one-fifth	Top one-fifth
Private money income	$428	$3,954	$23,098
Effects of policy:			
Taxes and cash transfers	+3,390	+2,248	−5,173
In-kind transfers	+1,974	+1,503	+123
After tax and transfer increase	5,792	7,705	18,048
Income change due to policy:			
Amount	+$5,364	+3,751	−5,050
Percent	+1,253	+95	−22

Finally, the data show that for all income quintiles, per capita real incomes after taxes and transfers among the elderly in 1983 were higher than in 1981. In short, policy changes instituted by the Reagan administration have not resulted in any diminution of real incomes for the nation's senior citizens. Indeed, the combination of both lower inflation and maintenance of the essential feature of the nation's social insurance and means-tested benefit program has permitted real incomes among the elderly to continue their historic rise. Over just the past three-year period, constant dollar average per capita incomes including in-kind transfers rose by 7% for the nation's 31 million citizens who live in elderly households.

TABLE 4.—CONSTANT DOLLAR AFTERTAX AND TRANSFER PER CAPITA INCOME AMONG ELDERLY SUBGROUPS: 1981 VERSUS 1983

[1983 dollars]

Elderly distribution among U.S. households	1981	1983	Percent change
Lowest quintile	$5,729	$5,792	+1.1
Second quintile	7,198	7,705	+7.0
Middle quintile	8,739	9,070	+3.8
Fourth quintile	11,033	11,593	+5.1
Top quintile	17,715	18,048	+1.9
Average, all elderly	9,587	10,254	+7.0

Female-headed households: The census data show similar trends for female-headed households. As a whole this group gained moderately in aggregate and per capita income as a result of the tax and transfer payment policies in effect in 1983. However, among female-headed households on the lower end of the U.S. income ladder, the effects of transfer payment policies are large and dramatic:

Among those in the lowest quintile, incomes were raised by 1,183% per capita as a result of $13 billion in net transfer payments.

Among those in the second lowest quintile, incomes were raised by 42% per capita as a result of $16 billion in net transfers payments.

TABLE 5.—IMPACT OF NATIONAL TAX AND TRANSFER POLICIES ON FEMALE-HEADED HOUSEHOLDS, 1983

Income measure	Private money income	Aftertax and transfers	Change	
			Amount	Percent
All female-headed households:				
1. Aggregate income (billions)	$169.6	$182.4	+$12.8	+7.5
2. Per capita income	5,116	5,502	+386	+7.5
Female-headed households in lowest one-fifth of U.S. households:				
3. Aggregate income (billions)	1.7	14.9	+13.2	+776
4. Per capita	170.0	2,181	+2,011	+1,183
Female-headed households in second one-fifth of U.S. households:				
5. Aggregate income (billions)	19.8	36.2	+16.4	+83
6. Per capita income	2,595	3,693	+1,098	+42

A comparison of after tax and transfer incomes among female-headed households shows that between 1981 and 1983, real per capita incomes improved for households in all income quintiles. This contradicts the frequently made charge that female-headed households, and especially those on the lower end of the spectrum, have lost ground due to Reagan Administration policy changes.

This conclusion is underscored by the figures in Table 6 comparing the per capita effects of tax and transfer payment policies between 1981 and 1983. In general, households in the first two quintiles gained as a result of higher real transfer payments and those in the top three quintiles gained due to lower taxes.

TABLE 6.—CHANGE IN PER CAPITA REAL INCOMES AMONG FEMALE-HEADED HOUSEHOLDS, 1983

[1983 dollars]

Per capital income	Female households distribution among U.S. households				
	Lowest	Second	Third	Fourth	Top
Aftertax and transfer incomes:					
1. 1981	$2,163	$3,638	$5,123	$7,113	$11,485
2. 1983	2,181	3,693	5,234	7,645	12,881
3. Change	+18	+55	+111	+532	+1,396
Impact of tax and transfer policies on private money income:					
4. 1981	+1,955	+1,029	−491	−1,520	−3,804
5. 1983	+2,011	+1,098	−461	−1,359	−3,650
6. Change	+56	+69	+30	+161	+154

Impact of national tax and transfer policies on poverty count: The data presented above raise serious doubts about the prevelant thesis that the Reagan Administration entitlement and social program reforms enacted in 1981 are responsible for the rise in the poverty count over the last two years. The fact is, macro-economic trends have been the primary contributor—and these forces have been operative at least since the mid-1970's.

Between 1977 and 1981, the poverty count rose by 7.1 million persons or 29%. During this period, the policies of the Carter Administration modestly expanded a few income transfer programs (e.g. WIC and low-income energy), but in the main the established structure of transfer payment programs was neither expanded nor contracted. The poverty count nevertheless exploded because double-digit inflation steadily reduced the purchasing power of AFDC benefits and other fixed incomes. The recession in 1980 further reduced incomes among the poor and thereby contributed to the rising poverty count.

Between 1981 and 1983 the poverty count increased again—to 35.4 million or by another 11%. Since most of the Reagan Administration entitlement reforms became effective in 1982 and 1983, some critics have jumped to the conclusion that these reforms were primarily responsible for the 3.2 million rise in the poverty count between 1981 and 1983.

The Census Bureau data suggest otherwise. It would appear that the major cause lies in the same forces which began the rising poverty trend during the Carter years: adverse macro-economic trends, principally in the form of a rise in the unemployment rate from 7.5 percent in 1981 to 9.5 percent in 1983. In a sense, the inflationary forces which raised the poverty count between 1976 and 1979 were superceded by the unavoidable economic contractions of 1980–1983 that were necessary to stop inflation. These back-to-back economic conditions further contributed to the continuing increase in the poverty count during those years.

Strong evidence for this conclusion is shown in Table 7. Between 1981 and 1983 the number of persons with private money incomes below the poverty line rose by 3.3 million. By definition, entitlement policy changes enacted in 1981 could not have caused this rise because all transfer payments are excluded from these figures (line 1). The effect of cash transfer payments in both 1981 and 1983 was to reduce the poverty count by virtually the same amount in both years or about 40%. As is shown on line (3) the official poverty count based on cash income after transfer payments rose by 3.2 million or a number nearly identical to the rise in poverty on a private money income basis. In short, the poverty rate rose between 1981 and 1983 due to the underlying deterioration of the economy and private money incomes among low income households. By contrast, the safety net of cash transfer payment programs exhibited about the same magnitude and degree of poverty reductions in 1983 as in 1981.

When in-kind benefit programs are included, the number of persons below the poverty line was further reduced by 12.2 million in 1981 and 13.1 million in 1983. Again these figures suggest that entitlement policy reforms enacted in 1981 for medical, food and housing programs did not contribute to the rise in the overall poverty count between 1981 and 1983.

There is every reason to believe that continued low inflation and economic recovery will begin to reverse the trend in private money incomes among low income households shown in line (1)—a deteriorating trend which began in 1977.

TABLE 7.—IMPACT OF TRANSFER PAYMENT PROGRAMS ON POVERTY COUNT, 1981 VERSUS 1983

[In millions of dollars]

Income measure	Persons below poverty line		
	1981	1983	Change
1. Private money income	52.6	55.9	+3.3
2. Impact of cash transfers	−20.4	−20.5	−0.1
3. Poverty count after transfer cash income	32.2	35.4	+3.2
4. Impact of in-kind transfers	−12.2	−13.1	−0.9
5. Poverty count after all income transfers	20.0	22.3	+2.3

The unexpected small rise in the poverty count between 1982 and 1983 is also consistent with these trends and conclusions. When the poverty population is subdivided into the four group framework I outlined in my presentation last fall it appears that those groups most dependent upon transfer payments did not experience a rise in the poverty rate during 1983 while those most dependent upon private money incomes did:

Among the elderly—the group most dependent upon transfer payments and least affected by economic growth—both the poverty rate and the absolute number of poor persons declined between 1982 and 1983. This continues a trend that has been underway for two decades.

Among female-headed households the poverty rate remained constant—with the growth in the absolute number attributable to the 3.4 percent increase in the number of persons in female-headed households in the population as a whole. In the short-run, economic growth has limited significance for this group for two reasons: the prevalence of households with small children; and because long-term dependency has resulted in a low employability rate among many adults in this group.

By contrast, both the rate and level of poverty rose slightly in the male-headed household and single adult category—despite the high level of employability in this group. A similar result is evident for the smaller, young singles group which also has a high potential for employment.

TABLE 8.—POLICY-RELATED POVERTY GROUPS: CHANGES BETWEEN 1982 AND 1983

[In thousands]

Indicator	Elderly	Female-headed	Young singles	Other adults	Total
Poverty measure:					
Number below poverty:					
1982	3,751	11,286	1,349	18,012	34,398
1983	3,711	11,689	1,526	18,340	35,266
Change	−40	+403	+177	+328	+868
Poverty rate:					
1982	14.6	42.1	32.0	10.4	15.0
1983	14.1	42.1	35.8	10.6	15.2
Change (percent)	−0.5	0.0	+3.8	+0.2	+0.2

These figures indicate either that:

The strong 1983 recovery did not materially affect the poor who potentially are most employable, or

That the 1983 poverty statistics did not capture the progress that was occurring over the course of 1983.

I believe that both logic and the evidence suggest the latter.

Specifically, the Census Bureau's annual March CPS survey collects income and poverty status information across the entire calendar year. Comparisons between 1982 and 1983, therefore, measure changes in the averages between the two years. Thus, on average, there was a small increase in the overall poverty rate between 1982 and 1983.

In general, the Census Bureau methodology does not create a problem of interpretation. However, when significant economic shifts occur between years, halting or reversing a trend, the Census statistics become less useful in capturing the effects of these economic changes on a real-time basis. This was the case between 1982, when economic conditions were in sharp decline, and 1983 when the economy was rapidly improving, illustrated in Table 9 below. The effect of these dramatic economic shifts, occurring over the course of the year between November of 1982 and November of 1983, are diluted in the July to July average snapshot of poverty levels taken by the Census survey.

TABLE 9.—ANNUAL AVERAGES VERSUS WITHIN YEAR CHANGES, 1982 AND 1983

	Unemployment rate (percent)	Employment level (millions)	Real income per capita (in 1972 dollars)
1982:			
First quarter	8.7	101.4	$4,548
Fourth quarter	10.5	100.7	$4,578
Percent change	20.7	−0.7	0.7
1983:			
First quarter	10.2	100.7	$4,591
Fourth quarter	8.4	104.2	$4,776
Percent change	−17.6	3.5	4.0
Annual average:			
1982	9.5	101.2	$4,555
1983	9.5	102.5	$4,670
1984 [1]	7.5	106.3	$4,896
Percent change:			
1982–83	0.0	1.3	2.5
1983–84	−21.1	3.7	4.8

[1] Year to date.

Table 9 demonstrates that the economy over the two years was moving along a path generally resembling a "V." Annual averages for employment and real wage incomes, therefore, show little change because the annual averages understate both the 1982 low point and the 1983 high point. Similarly, Census Bureau's annual poverty statistics show no improvement in 1983 among the categories with the highest employment potential because what they measure—annual averages—did not actually improve much. By contrast, the average level of employment and income between 1983 and 1984 already have risen dramatically. Hopefully, the 1984 poverty count will begin to reflect these improvements.

II. REAL TRANSFER PAYMENTS ROSE SUBSTANTIALLY IN 1983

The reasons for the rise in 1983 poverty rates and levels are complex and only partially explained by the evidence presented in Section I. But the data in Table 8 makes clear that poverty rates among those population subgroups most heavily dependent upon transfer payment programs did not rise in 1983 despite the slight increase in the overall poverty rate.

This finding strongly contradicts the loose charge frequently made that Reagan Administration transfer program reforms are responsible for the 1983 poverty increase. Further evidence to this effect is provided by the data on real transfer payments during 1983, shown in Table 10. Total transfers rose in real terms by 7.2 percent and means-tested benefits rose by 4.9 percent. The in-kind benefit share of total means-tested benefits continued its historic climb, reaching nearly 73 percent of total benefits in 1983. This underscores the fact that nutrition, medical and housing benefits continued to provide strong support to the nation's needy even after full implementation of the 1981 reforms which were heavily focused on these programs.

Moreover, real transfer payments in 1983 reached an aggregate level 68 percent higher than just a decade ago. Likewise, real means-tested benefits totaled $85.3 billion or 58 percent more than the 1973 level. While there remain legitimate arguments about specific gaps, inadequacies and inefficiencies in our transfer payment system, these data make clear that there is no basis for the charge that Reagan Administration policies have ruptured the nation's social safety net. On the contrary, in 1983 the social safety net was broader, deeper and more generous than ever before.

TABLE 10.—CONSTANT DOLLAR TRANSFER PAYMENTS

Year	Total transfers		Noncash		Noncash as percent of total	
	All	Means tested	All	Means tested	All	Means tested
1959	$75.5	$13.0	$1.3	$1.3	1.8	10.5
1973	238.2	54.0	51.6	30.2	21.7	56.0
1982	374.2	81.3	110.3	58.2	29.5	71.6
1983	401.2	85.3	119.0	62.1	29.7	72.8
Percent change: 1983 compared to:						
1982	+7.2	+4.9	+7.9	+6.7		
1973	+68.4	+58.0	+130.6	+105.6		

III. POVERTY RATES AMONG SUBGROUPS—ELDERLY AND FEMALE-HEADED HOUSEHOLDS

Elderly households: Poverty among elderly households is steadily being eliminated. Over the last 25 years, the number of elderly persons rose from 15.6 million to 26.3 million. The rate of increase was 2.5 times the growth rate in the non-elderly population. Yet while the total number of elderly rose almost 70 percent, the number of elderly poor has dropped by one-third, and the official poverty rate for elderly persons has plummeted from 35.2 percent to 14.1 percent.

There can be little doubt that what the Urban Institute has described as the nation's two tier safety net—the upper tier of social insurance and the lower tier of means-tested assistance—has contributed enormously to this favorable outcome.

TABLE 11.—TRENDS IN POVERTY AMONG THE ELDERLY

[Cash income basis]

Year	Total population	Below poverty line	Poverty rate
1959	15,557	5,481	35.2
1969	18,929	4,787	25.3
1980	24,686	3,871	15.7
1981	25,231	3,853	15.3
1982	25,738	3,751	14.6
1983	26,291	3,711	14.1
Change, 1959 to 1983 (percent)	+69	−32	−60

The results are even more impressive when the cash value of in-kind benefits are included. Table 12 shows that if the elderly population were required to depend entirely upon their own sources of private income, 17 million or 55 percent would fall below the poverty line. The upper tier of the safety net—social insurance benefits—lowers these figures dramaticaly. Cash benefits (primarily social security) reduce the elderly poverty count by 12 million or to a rate of 16.2 percent. In-kind social insurance benefits (primarily Medicare) further reduce the number of poor elderly by 2.6 million or to a rate of 7.7 percent. When means-tested benefits are added, the poverty level among elderly falls to 1 million and a rate of 3.3 percent.

TABLE 12.—THE EFFECTS OF TRANSFER PAYMENTS ON THE NUMBER OF ELDERLY POOR, 1983

	Number of elderly poor (in millions)	Poverty rate (percent)
Number of elderly poor before taxes/transfer payments	17.0	55.1
Effects of upper tier: Social insurance:		
Cash	−12.0	−38.9
In-kind	−2.6	−8.5
Poverty after upper tier	2.4	7.7
Effect of lower tier: Means-tested benefits:		
Cash	−0.8	−2.6
In-kind	−0.5	1.8
Poverty after lower tier	1.0	3.3

It should be noted in this regard that the valuation of in-kind benefits, particularly medical benefits, has been hotly debated. And it is true that no methodology is fully satisfactory. But I want to take strong and decisive issue with those who say that such benefits should not be counted at all on such simplistic grounds that "Medicare does not put food on the table."

No one ever said it does. But medical insurance protection is an expensive consumption item that almost every American family, nevertheless, chooses to purchase. If the Medicare protection package were provided in the form of a cash equivalent, it would be worth $1,675 per year or $140 per month. there is little doubt in my mind that given the frequency of illness among the elderly and the high cost of medical care, most of the elderly would elect to spend their Medicare cash equivalent on medical insurance protection. The availability of this protection directly raises the standard of living among the elderly and their effective incomes.

Those who insist that the average elderly person does not use $1,675 worth of medical services each and every year fail to understand the nature of insurance and risk-spreading. The fact is, this figure does represent the actuarial cost of the Medicare benefit package for the pool of elderly and other eligible persons. Its economic value as a beneficiary consumption item and transfer payment is identical.

Female-headed households: The poverty rate among female-headed households in 1983 was 42.1%—a figure identical to the 1982 rate as was noted earlier. While poverty rates at this level are obviously a cause for strong concern, it must be noted that the poverty rate for female-headed households has been very high ever since

statistics were first collected in 1959 and has fluctuated in a narrow range between 37 and 42 percent over the intervening years.

The census data point to two key attributes of the female-headed family subgroup:

The degree of private money income inequality among female-headed households is substantially greater than for the U.S. population as a whole: A small fraction of upper-income female households have substantial private money incomes while the vast majority of female-headed households in the lower-end of the U.S. income distribution have virtually no private money income at all and are nearly entirely dependent upon transfer payments.

The number of persons in female-headed households increased by 16 million or 137% over the last 24 years compared to a 31% increase in the U.S. population as a whole. Given the persistence of the high poverty rate among female-headed families, this increase in the rate of female household formation and population growth has been the strongest single source of upward pressure on measured poverty levels.

Table 13 compares private money incomes of female-headed families in the lowest two quintiles of U.S. households with female-headed families in the highest two quintiles. Female-headed households in the lowest two quintiles account for 53 percent of all persons in female-headed households. They have per capita incomes only 52 percent of the average for all other households in these two quintiles. By contrast, female-headed households in the upper two quintiles have per capita private money incomes equal to 92 percent of other U.S. households in the upper income group. This latter group of female-headed households accounts for about 27 percent of all persons in female-headed households. In short, a small fraction of persons in female-headed households have substantial private money incomes and presumably can benefit from continued economic growth. But more than half are very poor and are almost entirely dependent upon income transfer payments. Reversing the poverty count among female-headed households will require more effective policy mechanisms to meet the needs of the lower one-half of female-headed households than now exist.

TABLE 13.—PRIVATE MONEY INCOMES AMONG FEMALE-HEADED HOUSEHOLDS, 1983

Income	Distribution among all U.S. households	
	Lowest 40 percent	Upper 40 percent
1. Per capita income	$1,236	$12,087
2. Income as a percent of other U.S. households	52	92
3. Number of persons in female-headed households (millions)	17.4	9.1
4. Percent of all persons in female-headed households	53	27

Since 1959, the number of persons in female-headed households has grown 2.5 times faster than the U.S. Population as a whole. Despite the enormous growth in transfer payments over this period, the poverty rate among these households has remained virtually constant. Viewed in the context of the figures on private money incomes presented above, these trends would seem to suggest that new female-headed households without significant private money incomes are being formed at a rapid rate, thereby holding the poverty rate constant.

This phenomena undoubtedly represents the largest single challenge to anti-poverty policy today. Moreover, the data in Table 14 strongly suggest that the rapid proliferation of new programs and the rise in real transfer payments which occurred throughout the 1960's and 1970's were not equal to the task posed by this pervasive societal change.

TABLE 14.—GROWTH IN FEMALE-HEADED HOUSEHOLDS AND POVERTY, 1959–83

Year	In millions—		Poverty rate
	All female-headed households	Below poverty level	
Persons in			
1959	11.7	5.2	44.9
1968	16.2	6.6	40.8

TABLE 14.—GROWTH IN FEMALE-HEADED HOUSEHOLDS AND POVERTY, 1959–83—Continued

Year	In millions—		Poverty rate
	All female-headed households	Below poverty level	
1976	22.3	8.8	39.6
1981	26.7	10.8	40.4
1983	27.7	11.7	42.1
Change, 1959 to 1983	+16.0	+6.5	−2.8

Table 15 shows further aspects of this decade-long shift toward female-headed households in the population as a whole. Between 1967, the first year for which we have detailed information from the Current Population Survey, and 1983, families with children increased approximately 4.3 million. Almost 4 million of that 4.3 million growth in families with children was in female-headed households.

Moreover, while the number of families increased, total persons in families with children declined by about one million. Yet within this total, the number of persons in female-headed families increased by 11 million or 92 percent compared to a 10 percent decline in persons in male-headed families.

TABLE 15.—GROWTH IN PERSONS IN FEMALE-HEADED FAMILIES WITH CHILDREN

	1967 (millions)	1983 (millions)	Percent change	Annual growth
Families:				
All families with children	28.6	32.9	15	0.9
Male-headed families with children	25.5	25.9	1	.1
Female-headed families with children	3.1	7.0	130	5.4
Married, father absent	0.3	0.4	31	1.7
Never married	0.3	1.8	550	12.4
Divorced-separated	1.6	4.3	167	6.3
Widowed	.9	.6	−36	−2.7
Persons in:				
All families with children	131.7	130.7	−0.8	(1)
Male-headed families with children	119.7	107.7	−10	−0.7
Female-headed families with children	12.0	23.0	92	4.2
Percent in female-headed families	(9.1)	(17.6)		

[1] Less than 0.1 percent.

These figures portray fundamental, if sometimes poorly understood, societal changes. Compared to 1967, households headed by a divorced or separated mother with children increased 167 percent. This increase accounts for 62 percent of the total increase in families with children, or 2.7 million families. More troublesome has been the increase in households headed by a never-married mother. From just about one percent of all families with children in 1967, this group has increased to 5.4 percent by 1983. The number of people in such households grew 550 percent between 1967 and 1983 at the same time the overall family population declined.

Single parent families have inherently less earning capacity than two-parent families. The welfare system can temporarily ameliorate the economic situation in which these families may find themselves, but in the long run welfare must be complemented by other efforts.

One obvious way to address the unique problems of this group is to tap the earnings capacity of the absent parent. The bipartisan support for this approach is reflected in the passage, this year, of legislation to significantly strengthen the child support enforcement program. The 1981 Census study showing that nearly 40 percent of all court ordered child support went uncollected in that year pointed the way to this needed improvement.

Steps also can be taken to enhance the employability of custodial parents. Already we can see that female-headed households are participating in the economic recovery to a considerable degree. The number of unemployed persons in these households has declined in absolute number over recent months. For 1984, the un-

employment rate has been 15 to 20 percent below what it was for the same months in 1983 and employment levels have been about 10 percent higher.

Initiatives taken jointly by Congress and the Administration to help finance child care through tax credits and employer-provided benefits should continue to facilitate these employment trends.

Chairman RANGEL. Thank you, Mr. Stockman.

You are one of the architects of the economic recovery package and I assume that you are very pleased with that recovery. I do not think you dispute the statistical data that the Public Assistance and Unemployment Compensation and Oversight Subcommittees have put together. It indicates that 15.2 percent, 35 million people, are living in poverty in this country—that is the highest since 1964—and that more than one-third of all black Americans live in poverty. The number of female-headed families living in poverty have been hit hard by recent budget cuts and that has been increased by 123,000 alone.

This data is compiled by the Census Bureau. You say that it is not the administration's fault that poverty has increased. Somehow these people were not incorporated in the recovery; and you attribute a large amount of this increase in poverty to the fact that there were increases in unemployment.

Now, it just seems to me that where you have a tax package that reduced taxes severely and you are proud of the fact that you have drastically reduced Federal spending, at least in nondefense allocations, you cannot be particularly proud, for whatever reason, that the number of people in poverty has increased, notwithstanding the fact that you think that it would have been sharper under pre-Reagan policies.

The question still remains, if you are not proud of it, what do you intend to do about it? What programs are you prepared to recommend to this Congress, or do these people who find themselves in poverty wait for a more improved recovery?

I mean, is there anything that you are prepared to tell this committee that we should be doing to assist these people?

Mr. STOCKMAN. Well, Mr. Chairman, I would say I think the evidence is pretty clear that what is needed is more economic growth, more jobs, and a continuation of the recovery.

Chairman RANGEL. We are putting that in our newsletter and we are sending that to every poor family we have in the country, so they should get great comfort out of that.

I am only asking, is there anything that you might be suggesting, in terms of legislation, that this committee, this Congress, can do to alleviate the pain of the people who have not been swept into the recovery that you are so proud of?

Mr. STOCKMAN. Well, Mr. Chairman, everyone would like to find some simple panacea, some bill to enact, some wand to wave that would make it all go away. But I do not know that there is any way to do that. We have certainly tried it over a long period of time and the result was that the problem kept enlarging and not decreasing.

Chairman RANGEL. Well, I am certain those that are caught in it appreciate the fact that you have restrained the increase. Now, do you have any additional cuts that you might be suggesting in social service programs—strike that out.

Any additional cuts in nondefense programs that you might suggest to speed up the economic recovery?

Mr. STOCKMAN. I do not think additional cuts in low income benefit programs will speed up the economic recovery. I think there were some corrections that needed to be made in 1981. They were made. Many of them were supported on a bipartisan basis by many members of this committee here today. I note, as we carry on this discussion, they are constantly referred to as the Reagan cuts, but I do remember that they were supported, not by everyone, but by majorities of Congress in 1981 and 1983.

We have not made any significant changes since 1981, except in a few instances you and other members of this committee have proposed to slightly adjust or correct some of the changes that we made in 1981. We have accepted some of these, rejected others, and a number of them were enacted in the Deficit Reduction Act, as you remember, a few months ago.

So I do not think there are any more significant changes that are needed. Most of the structure of benefits that was in place in 1981 remains. The dollars being spent on these programs are higher in real terms than ever before, and I showed this in my testimony, although I did not mention it—$400 billion for all transfer payment programs combined.

And even if you look at only the means-tested programs, those numbers have risen every year since 1982.

Chairman RANGEL. Mr. Stockman, you are proud of the recovery. You admit that a lot of people did not participate, that people were pushed into poverty because of the high unemployment. And yet, the public service employment and job training programs that we did have were among the very top items that you wanted cut out and were successful in getting cut out of our budget.

Do you believe that if we had restored those cuts in public service jobs and job training that it might alleviate some of the pain that we find in people that were pushed into poverty by bipartisan efforts?

Mr. STOCKMAN. Mr. Chairman, I just have to say on that issue and those programs, I have very serious doubts for one simple reason. From 1976 to 1981, the number of poor people increased by 6.8 million, a lot more than the last 3 years that you are talking about. During that period, the prior administration, with some support on the Hill, doubled the size of the public employment and training programs.

Did that stop the poverty rate from rising at the most rapid rate in recent history? No. And based on that experience, I find very little ground to conclude that, had we not eliminated those programs in 1981, that the poverty rate would have been reduced. And I do not think those programs did anything to reduce poverty.

Chairman RANGEL. You are suggesting now that the people who find themselves without jobs, the people that find themselves poverty stricken, should wait until the economy improves to such an extent that they will be pulled out of their misery, and there are no programs or recommendations that you would have that this Nation should support in order to give assistance to these people?

Mr. STOCKMAN. Well, Mr. Chairman, I wish we could come up with some way to make the economy grow 25 percent overnight, so

that there would suddenly be 8 million more jobs. But we do not know how to do that. You do not, I do not, no one does.

Chairman RANGEL. So we should not do anything about it except to wait until we can come up with something to spur the economy? And the fact that so many millions of people find themselves poverty stricken in this great Nation of ours, there is just nothing that you can recommend and nothing that this Congress could or should do?

Mr. STOCKMAN. I do not think further Federal programs are going to alleviate that problem.

Chairman RANGEL. That is where the private sector and the charity and the churches should get more involved; is that it?

Mr. STOCKMAN. That is one aspect of it.

Chairman RANGEL. OK. I just wanted to know.

Mr. Ford.

Chairman FORD. Thank you, Mr. Chairman.

Mr. Stockman, I think one of the members earlier in their opening statement made mention of a statement that you made last year, and you made that bold prediction before the joint committees last year. I think you said you were absolutely confident that the poverty rate for 1983 would decline dramatically, and it was your hope that low inflation, reduced unemployment, and that an increase in the real disposable income would reduce poverty. I think that those were your words before this committee.

Unfortunately, Mr. Stockman, your prediction did not prove to be correct, and now you are here before this committee today and you are saying that this administration is spending so much and trying to do so much as it relates to the 35 million people who are living below poverty. Why is poverty increasing if that is the case?

You have testified and you have said today that this administration is doing so much. If that is the case, why would the General Accounting Office and the Congressional Budget Office and the Congressional Research Service and the Census Bureau give us other information to show us that poverty has increased in this Nation and that, because of the Reagan administration policies, we have seen a significant increase in the poverty rate?

You have shown us in your testimony that will be made a part of the record, you have shown us these tables. You have shown us the charts and all. But we still see that the fact remains that poverty has increased in this Nation.

And Mr. Chairman, I submit the same question to Mr. Stockman: Where are we and what are we doing at this point in time?

Mr. STOCKMAN. Well, I thought the thrust of my testimony was to try to demonstrate that poverty increased in 1983 among those groups in the poverty population that simply are ineligible for transfer payment and benefit programs, or should be; and that, among those who are dependent upon the programs that you are talking about, the poverty rate either did not increase or decline.

Among the elderly the rate declined. The number of elderly poor declined. Among female-headed households, the rate stayed the same; it did not get worse.

The reason that the number went up slightly is that there were about 3½ percent more people in female-headed households in 1983 than 1982. Where the increase occurred in poverty, if you just want

to look at one year, was among those groups who were dependent almost entirely on jobs and private earnings for their income, because they are able-bodied and they are not eligible for the welfare or means-tested programs that we have and they are not elderly and eligible for social insurance.

Now, if you want to start a general income transfer program, a universal income maintenance system that makes everybody eligible for welfare, you are entitled to do that. But I would remind you that the Congress has debated that issue from 1969 through 1979, and both Democrats and Republicans concluded that a universal income maintenance scheme would do more harm than it would do good, not only fiscally but also in terms of the incentives that would affect the working population.

My President tried it with the FAP program in the early seventies and it was turned down. Your President tried to make significant movement in that direction with his 1979–80 welfare proposal. It was turned down and set aside and defeated by the Congress.

Now, that is the kind of income maintenance program that would address these two categories of young singles and male-headed families. But we have chosen not to go that route, for good, substantial reasons.

Therefore, we have got to have stronger economic growth and more job creation if we want to address poverty in those categories, and those are the categories where poverty increased in 1983 and substantially over the prior years.

Chairman FORD. Well, what about female-headed households? It increased to the tune of 2 million people between 1980 and 1983. Let us just deal with that category.

Mr. STOCKMAN. What I indicated was that the number of female-headed households increased, the rate of poverty remained the same. Later, in the back part of my testimony, I have tried to indicate that you really have two groups to deal with, those that do have private earnings—and that is a matter for economic growth and general economic policy—and those that are almost entirely dependent upon transfer payments.

I am not sure the problem in the latter group, which is the preponderant share, is simply a matter of inadequate social insurance or AFDC checks or food stamp benefits or Medicaid benefits or public housing assistance. I think part of the problem is that we have a very rapid rate of new female-headed household formation, resulting from the incentives of the existing system, which is sort of a self-generating source of poverty, a way of being self-defeating in the process of trying to help people.

And I do not think if you simply put more money into AFDC you are going to have a reduction in the poverty rate. I think you are going to have more AFDC households, and most of them will be poor and we will be exactly where we are today.

So if any members of this committee have some clear and feasible and fair and workable ideas on how we may reduce the incentives in the AFDC Program for the formation of these new households that cannot possibly support themselves, that remain poor even with the variety of income transfer benefits, then let us go to work on that. But I have not heard those ideas from here or very many other people in recent times.

Chairman FORD. Mr. Stockman, you are comparing 1982 with 1983. The budget cuts were already in place in 1982. Let us talk about 1980 to 1983. Let us go back prior to the budget cuts. Let us not compare 1982 with 1983. Let us talk about prior to the budget cuts taking place.

Mr. STOCKMAN. I provided a table comparing 1981 real incomes for all five quintiles of female-headed households with 1983. Not one of our budget cuts was effective in 1981. They all became effective in 1982.

What those numbers——

Chairman FORD. But they were already in place. You are comparing 1982 to 1983, when they were already in place.

Mr. STOCKMAN. Mr. Chairman, I said in my testimony—and I will refer you to page 11. I compared 1981, where there are no Reagan policy changes reflected in the 1981 numbers, no AFDC cuts, Medicaid reforms, food stamp changes. None of that was in effect in the 1981 numbers.

I compared that to 1983. Now look at the numbers. Does it look like real incomes were going down or up?

Chairman FORD. Well, I think it took effect in October 1981.

Mr. STOCKMAN. The law was effective, but the regulations were not, and at the State level almost none of the changes actually began to take money out of people's pockets in October or November or December.

Chairman FORD. Mr. Chairman, I have one final question.

Mr. Stockman, will the 1986 budget include any reductions in AFDC, food stamps, and other means-tested programs for the poor, that will be submitted to the Congress?

Mr. STOCKMAN. Well, as I indicated to the chairman before, I believe that most of the corrections that needed to be made have been made, except for maybe small changes to address the issue of the error rate or something of that sort. At least personally, at the moment I do not think I would see any justification for or need for additional changes in the low-income benefit programs.

Chairman FORD. Has the administration considered any cuts in AFDC, food stamps, and other means tested programs?

Mr. STOCKMAN. We have not even addressed the 1986 budget. That will come later.

Chairman FORD. Have you had any discussion about any cuts?

Mr. STOCKMAN. I was expressing my personal opinion. I do not think that we will. I would not recommend any significant cuts or maybe not any.

Chairman FORD. Significant cuts?

Mr. STOCKMAN. Let me say any cuts at all. Maybe that would make you happy.

Chairman FORD. Thank you, Mr. Chairman.

Chairman RANGEL. The committee will recess for 10 minutes and start off with Mr. Matsui.

[Recess.]

Chairman FORD. The subcommittees will come to order.

At this time the Chair will recognize Mr. Matsui.

Mr. MATSUI. Thank you very much, Mr. Chairman.

I want to commend you again, Mr. Stockman, for appearing before us. I am looking at table 10 on page 19 of your testimony,

and I must say that these tables give one a different sense of what many of us perceive has been happening over the past 3½ years.

Your table indicates that all transfers in 1973 accounted for 238—is that millions of dollars?

Mr. STOCKMAN. Are you talking about table 5?

Mr. MATSUI. I am talking about table 10 on page 19 of your testimony.

Mr. STOCKMAN. Excuse me.

Mr. MATSUI. That must be millions of dollars?

Mr. STOCKMAN. Yes.

Mr. MATSUI. Is that millions of dollars?

Mr. STOCKMAN. This is billions.

Mr. MATSUI. Then in 1973, what, it is $238 billion, but if you take the means-tested programs it is $54 billion. And then 1982, it is $81.3 billion, and in 1983 it is $85.3 billion. And it gives the appearance, anyway, that the Reagan administration had been rather generous in its efforts to help those that are receiving these means-tested programs.

I am assuming that is not what your intention was; your intention was just to dramatize the fact that there had been an increase in these programs; is this correct?

Mr. STOCKMAN. Well, Congressman, I was just trying to put in perspective that when we are arguing about whether a billion dollars and a half should have been cut from AFDC in 1981 or whether a billion and a half a year should have been cut from food stamps, let us not make that argument over the appropriateness of those specific cuts—and you remember what they were—obscure the fact that the underlying base of programs still provides an enormous amount of support for needy families.

The $85 billion was just as important, that was there and we agree on, as the billion and a half that we are still arguing about.

Mr. MATSUI. I find it rather interesting, because right now the debate in the House and the Senate, along with the administration, is over whether we should spend $292 billion for defense or $299 billion. And because of that meager, if I take your comments to mean $7 billion here or there are meager, that meager $7 billion difference between the House and Senate defense numbers, is what is holding up the national budget.

And so I really cannot accept your comments that a billion here or a billion there are irrelevant and that we should look at only the big picture.

Now, let me just say, I take it that you probably have not had time to look at the September 20 safety net study issued by both of the subcommittees; is that correct?

Mr. STOCKMAN. I have not yet received that.

Mr. MATSUI. May we have a copy of that given to Mr. Stockman. And perhaps, Mr. Stockman, you could look on page 52, table No. 1, and if you would, these are constant dollar numbers, of course—excuse me, these are 1983 dollars.

For 1983, if you look at table No. 1, on the first line it would be expenditures excluding, of course, Medicare and Medicaid. You are talking about from 1980 $56.3 billion, in 1983 $53.9 billion, a drop of $2.3 billion or a percent change of 3.2 percent downward. So it would indicate to me that your administration's cuts during those

periods have in fact reduced the amount of actual payments, unlike this table 10, which would indicate perhaps the opposite, or perhaps it is even more ambiguous; it is unstated.

Would you comment on that?

Mr. STOCKMAN. Well, first, constant dollars or 1983 dollars?

Mr. MATSUI. We are talking about 1983 dollars. I was incorrect when I said constant.

Mr. STOCKMAN. The other thing is, there is——

Mr. MATSUI. Would you comment?

Mr. STOCKMAN. I will comment. There is a different set of programs in your table and mine. My table includes the State matching portion of the AFDC and Medicaid and other Federal-State benefit programs. After all, that is the total benefit.

Mr. MATSUI. You are counting State programs in here?

Mr. STOCKMAN. I am counting the State share of the Federal-State matching programs.

Mr. MATSUI. So you are counting the State share. Is that in here? Did you put that in here? Did you mention that?

Mr. STOCKMAN. I did not think that was necessary. What I have said in the context here is this: The total amount of transfer payments——

Mr. MATSUI. I asked you, did you mention the fact that you have the State portion in the programs in this document that you delivered to us today?

Mr. STOCKMAN. I think it is pretty clear from the context that I am talking about the total system.

Chairman RANGEL. Will the gentleman yield?

Mr. MATSUI. Yes, I would yield.

Mr. STOCKMAN. Does it really matter to you whether the dollars come from the States?

Mr. MATSUI. I thought you were talking about the Federal portion. I thought, Mr. Stockman, you were talking about the Federal involvement in these programs. I mean, we can talk about the State and local some other time.

Mr. STOCKMAN. My whole presentation here is based on census data, which includes benefits people receive, from whatever source. The Federal Government generates most of it.

Mr. MATSUI. I think it would have been appropriate for you to indicate that, so we would not have had to waste your valuable time in discussing it.

The chairman apparently has a question.

Chairman RANGEL. Did you include charitable contributions or the worth of what had been volunteered, given to these poor folks?

Mr. STOCKMAN. I do not think the Census Bureau picks that up to any significant degree. These are census data.

Chairman RANGEL. I was just wondering how far you went.

Mr. MATSUI. May I, Mr. Chairman? Thank you.

In taking a look at table 2 on page 54, Mr. Stockman, this is perhaps even more important because it talks——

Mr. STOCKMAN. Wait a minute, Mr. Matsui. You are doing this job to us again here, are you not?

Mr. MATSUI. I am doing what?

Mr. STOCKMAN. In means-tested benefits, are you counting jobs programs?

Mr. MATSUI. No. That is the lines that you are looking at, that I am not looking at. I am looking at number——

Mr. STOCKMAN. Is that not the top line the sum of those below? I would not include the public employment program or the job training programs as part of means-tested benefits.

Mr. MATSUI. We are talking about expenditures including medical benefits up here, and we are talking about——

Mr. STOCKMAN. What is in that?

Mr. MATSUI. You do not—in other words, you do not——

Chairman RANGEL. Jobs is not in that.

Mr. STOCKMAN. But it includes it.

Chairman RANGEL. It does not.

Mr. STOCKMAN. Well then, it is fairly obvious that in table 1 the big reduction occurred in that category, $5.5 billion, 73 percent. In the Democratic budget offered in the spring of 1981, that was supposedly better and fairer than the Gramm-Latta resolution—you wiped out the jobs programs almost to the same degree we did.

Mr. MATSUI. I guess the point we are trying to make here, Mr. Stockman——

Mr. STOCKMAN. The point I am trying to make is the entire reduction that you are pointing to is due to jobs programs for the most part, and that is the difference between our tables.

Mr. MATSUI. I think the point I am trying to make, Mr. Stockman, is your table 10 has some deception in it when it does not include the State share of these programs. And second, it does not include 1981 and 1980, which your administration, at least in 1981, has been involved in. And you do recall you had some rescissions that you brought before the Congress and the Ways and Means Committee.

Now, let me then next go to table 7 on your particular study here, and I am assuming you are including the State portion in table 7 as well. Well, of course, this is where you are trying to demonstrate that the number of poor people is a result of the economy, and I think most of us agree that that is generally the case.

But when you take a look at line No. 2, have you calculated how the poverty rate would have been different under the second line if we would have continued the programs that you people cut in 1981 and 1982?

Mr. STOCKMAN. Well, if you will allow me to calculate it assuming the inflation rate would have stayed where it was.

Mr. MATSUI. No, I am saying without those cuts. Frankly, I do not think you had anything to do with inflation. I think it was Paul Volcker.

Why do you not just tell me, if we had continued the programs and you did not make those cuts, what would that number be? Could you calculate that?

Mr. STOCKMAN. Well, I suppose that that could be calculated and we could supply it to the committee. I do not think it would be appreciably different.

Mr. MATSUI. You think it would be just like your prediction was about the poverty rate last year as opposed to this year?

Mr. STOCKMAN. Well, this is not a prediction; this is retrospective judgment.

Mr. MATSUI. Well, let us take a look at table No. 6 just for a minute, and I hate to bore you with your own document, but I just want to make sure that I understand it correctly. You have female households here. Now, I am assuming that you are only talking about female-headed households with children in this particular table, is this correct, or are you including female elderly?

Mr. STOCKMAN. No, this is all nonelderly female-headed households.

Mr. MATSUI. The staff was not quite sure of that and they just wanted to make certain that that was the case. Thank you.

Now, with respect to the elderly, President Reagan in 1980 had already made the statement when he was a candidate for President that Social Security must be protected and that payments must keep pace with regard to the cost of living. That was in 1980, of course.

In 1981, after he was elected, he proposed delaying the cost-of-living increase for Social Security recipients. In 1982, in the budget negotiations you proposed capping and delaying the cost-of-living increases for Social Security. And in 1983, the President's representatives on the Social Security Commission insisted that the COLA's be delayed in order that a compromise be reached and, of course as you know, the COLA was delayed, and that was the year that, with the concurrence of both House and Senate Members, including myself.

But now in 1984, President Reagan is again promising not to delay the 1985 cost-of-living increase. And I see a pattern. Perhaps you do not, but it sounds like when he is a candidate he is all in favor of increasing the COLA's, but when he is in office he certainly opposes that.

Can you assure us, Mr. Stockman, knowing the past behavior of this administration and this President, that if he is elected in 1986, 1987, and 1988 he will not come to Congress seeking to cap or reduce or freezing the COLA's?

Mr. STOCKMAN. Well, Mr. Matsui, I would only note that, in the realm of consistency, you and the other Democratic members of this committee voted out a bill in June 1981 to delay the COLA's for Social Security, and we defeated that on the floor with the Gramm-Latta alternative, which did not do that.

And then in 1983, when it was clear that Social Security was going bankrupt, the Speaker of the House, Senator Pepper, and others agreed to a COLA delay that nearly every Member of the House and Senate voted for, including you again.

So you have been pretty consistent on the issue of voting to delay COLA's. So I can understand why you might be concerned about whether other people are going to be consistent. But my impression is that the President will be consistent with what he is saying, just as you have.

Mr. MATSUI. What year would he be consistent with what he is saying? Are you talking about 1980, 1981, 1982, or 1983 or 1984?

Mr. STOCKMAN. I think he has been consistent all the way through. I really do not see your point.

Mr. MATSUI. You think he has been consistent all the way through? That is very interesting. I guess that is why your num-

bers have not come out too well from 1981 with the balanced budget proposal that you spoke of for 1984, I suppose.

Well, Mr. Stockman, I only would like, as I said in my opening comments, at this time to thank you for your testimony. I frankly think that your graphs and your math in this presentation is full of distortions, and I only wish that in the future when you appear before this committee that you identify where you obtain your information, and certainly identify State programs and local programs and others at the same time, because there is a deception factor involved when you make that kind of presentation.

Chairman RANGEL. Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman.

Again, I would like to issue my welcome to you, Mr. Stockman, to come back. I have got some questions I would like to ask, that have basically been asked of me as I go around my congressional district speaking to business groups.

It is a question that I hear an awful lot, and the question is: Can we grow our way out of the deficit? Now, you touched on this some earlier in your testimony, but I just wandered if you could be a little bit more explicit about it. I would like to have a good indication from you as to what I could tell the business people, and as to what I could tell my constituents. What can they really expect as far as the growth of the economy between now and 1988, and what level would it have to grow to reduce the deficit significantly?

Mr. STOCKMAN. My understanding of the purpose of this hearing was to focus on the poverty issue and not engage in some kind of blue-sky speculation about the big fiscal choices. I would say, though, that if I may express myself very cryptically, that I do believe we can grow our way out of poverty, but I do not think it is as likely that we can grow our way out of the deficit.

Mr. ANTHONY. Well, I probably would not have asked that question of you at this hearing, because I would have not felt it was germane. But in the exchange that you had with Mr. Rangel and Mr. Ford, when they asked you if you were likely to be pursuing other policies, you basically said that you thought that those programs were solidly in place and doing the job. So I thought that you opened it up to be germane.

You have given the answer that I guess I wanted to hear. You are saying that we cannot grow our way out of the deficit, although we can grow our way out of possibly some of the poverty. If we cannot grow our way out of it and if we are going to take a very realistic look at what needs to be done in 1985, going back to President Reagan's press conference of September 11, when asked if he would spell out to the American people where his plan may take us, he just said: Take a look at past blueprints.

Is that your understanding of what we can look forward to for 1985 and 1986, is to basically look at what had been submitted and what was not passed or accepted by the Congress as the pattern that we could go on?

Mr. STOCKMAN. Well, as I indicated, I do not think it is appropriate here to get involved in speculation about the whole budget and future fiscal policy. When I talked to the chairman of your committee, I indicated I would be willing to come up on this occasion to

discuss the poverty report for 1983 and the issues that you have. But I am not going to speculate about the budget.

Mr. ANTHONY. That is fine, and I am not trying to pin you down to speculate on it, because in my opinion it appears that it is part and parcel of what happens to those people that are at or below or just near the poverty line. To be quite honest with you, I can not take your testimony and go to my district and give your speech, because, number one, they are not going to understand it. It would take me a week of going through the charts and the graphs, of trying to educate them about the budget process.

They want a quicker, simpler answer. They want to know if spending is going to be cut and if taxes are going to be raised, or are we going to grow our way out of deficit? At least you say we are not going to grow our way out of it, so that leaves me to one of two alternatives: We are either going to cut spending so that we can get there or we are going to raise taxes to get there, or we are going to do a combination of the two.

I spoke this morning to a group of business people and I ask for a show of hands. I asked them how many of them were worried about the deficit and I had about six that held their hands up. Then I asked how many were not worried about the deficit, and I had about 35 that held their hands up. So I am not really sure why we are even talking about it to begin with. If no one is really concerned about the deficit, we can just let that sucker keep on growing.

But at the same time, one of them asked if you can reduce unemployment down to 4 percent, based on the numbers that they understand—and you have a little rule of thumb that you talk about, for every 1 percent of unemployment you get about $25 billion in net savings. And I could not answer the question: What are the realistic prospects of getting unemployment down to 4 percent over the next 3 years?

How could I have better answered the question, other than saying I do not know?

Mr. STOCKMAN. Well, again, I hesitate to get ourselves too deeply enmeshed in this, but obviously as unemployment falls the deficit improves, and that has been happening. I do not think many economists believe that you could get to 4 percent, but I believe most believe that you can reduce the unemployment rate substantially below where it is today.

There is an argument about whether full employment is 6 percent or 5½. It used to be 4 in the sixties, but most analysts have backed off of that. So it is somewhere in that range.

But clearly, the prerequisite for dealing with the deficit problem is to keep the economy expanding and the unemployment rate coming down. That will help. My point was it will not do the entire job alone, and I do not think anybody said that.

The President has said time and time again that it is going to take spending restraints and economic growth, not just economic growth alone. There may be a few that would make that argument, but I doubt very many.

Mr. ANTHONY. Well, I am glad to hear you say that.

I would just close by trying to make two observations. In your testimony you indicated the working poor were found to be moving

toward all out poverty. Well, during the period of time I served on the Public Assistance and Unemployment Subcommittee, I know that most of the policies that you presented to the Congress during that period of time targeted cuts in the working poor programs.

Now you are saying that what really bothers you is that one of the fastest growing areas of poverty is among single parent households. You almost indicated you thought people were getting divorced to create single family households—at least that is the way this member understood it—to create a single family household so that they could move into these programs.

And it seems to me that if that is true, then you pursued a policy that created the results of moving people below the poverty line, even though many of us argued that at the margin it did not make a lot of sense to force those people into a situation of trying to choose between marginal work, where they would have a net loss rather than go into the programs.

Mr. STOCKMAN. Well, I would just urge you to take a look at the table that I provided near the end of my testimony, because you will see that the most rapidly growing category of single parent female-headed households—and this is on page 27—consists of never married female heads of households. And over the last 13 years, the number of people in that category has increased 300 percent, at an 11.3-percent annual rate.

Now, I would not make the simplistic proposition that the availability of AFDC to a single female head of household causes such households to be formed inexorably and automatically. But I think there is plenty of evidence, both analytical and academic, as well as just observation, to suggest that some element of that thesis does indeed exist and that in a sense the existing system actually generates an increasing number of households that have almost zero earning capability or earning availability; and in the process of trying to reduce poverty, we may well be extending it at the same time, and therefore we ought to put ourselves in a position to achieve the former objective without exacerbating the latter, or having the latter effect.

Those are unintended consequences. Nobody wants them. But clearly there is some element of this phenomenon that occurs. I do not think any member of this committee would disagree.

Mr. ANTHONY. Well, I would disagree. If anybody can tell me that you can make money by having babies and going on welfare, I will tell you that that is a bunch of bunk and they have not gone out and tried to raise a bunch of kids. I mean, that is the law of diminishing returns, because for every one that you can have I can promise you your costs are going up.

You ought to be finding that out pretty fast, because I know that you have recently been married. I do not know if you have any children or have any children on the way. I happen to have two daughters and I can tell you that they are damn costly.

And if you can tell me and argue with me and show me any empirical evidence other than just forthright statements that people are going out and having babies to get on welfare so that they can become rich and not have to work, I can tell you that that is a bunch of bunk. In south Arkansas I would use a much better term. [Laughter.]

Mr. STOCKMAN. Well, I just have to say, I can tell you feel quite strongly about that, but I am somewhat perplexed about the vehemence of your denial. Perhaps I am wrong, but that is a rather widely held perception, and I think it is hard——

Mr. ANTHONY. Just because it is a widely held perception does not make it a fact.

Mr. STOCKMAN. I think it is rather hard to explain things like the rate of female-headed households among 16 and 17 year olds by any other factor than that.

Mr. ANTHONY. Let me publicly state that I do not support that notion. I do not condone it. I think that there are other ways that we can go about trying to address this problem. And I am sorry to tell you that the State that I represent, the State of Arkansas, has the second highest rate, only to the District of Columbia. So if you want to point the finger, you can come use Arkansas as a case study.

It is something that disturbs me greatly. But I think there are such things as education and I think there are such things as trying to get parents and schools and all involved in trying to solve that problem. I am not so sure that to say, let us just go eliminate an assistance program and say that we have solved the problem is going to do it either.

Mr. STOCKMAN. Mr. Anthony, you are totally misinterpreting me.

Mr. ANTHONY. I guess I just did not like the way you put the answer.

Let me just close by making one statement, if you would permit me, Mr. Chairman. After reviewing your testimony and after reviewing some other tax policy numbers, when we talk about the elderly and also the poor, I would like to read a statement and then let you respond to it if you care to.

It says: Using an aftertax, both Federal and State income tax and payroll taxes, but not sales or property taxes, measure of poverty, the number of poor pushed into poverty in 1982 was 3.2 million and would increase the number of poor between 1980 and 1982 by 1 million. This data will likely be true for 1983 as well, because tax burdens on the poor—and this is what I really want you to address—the tax burdens on the poor increased between 1982 and 1983.

The Federal tax burden for a family of four with earnings equal to poverty has increased from $460 in 1980 to $1,000 in 1983.

So the other questions I have asked have really been more on the spending side. This question that I close with talks about on the tax side, and in the great drive to try to talk about reforming the tax code, do you see a need for us to take a look at that particular area? Is there anything in that that disturbs you, that we should take a look at?

Mr. STOCKMAN. If the numbers are correct that you have cited—they sound a little unfamiliar—it is something to look at. I think it indicates one of the problems with raising taxes.

Mr. ANTHONY. I guess that is one problem we have at these hearings, is you come prepared knowing your numbers and we come prepared knowing our numbers, and we do not have a chance to study them in great detail before we get here.

But, as always, I want to thank you for coming. I am always impressed with your knowledge of the budget process. And I would just like to close by begging you to take a hard look at all the budget numbers, and in particular defense.

Chairman RANGEL. Mr. Guarini.

Mr. GUARINI. Thank you very much, Mr. Chairman.

Dave, we could argue about graphs and maps and figures and baseline assumptions, and this can go on endlessly and I do not really think it is going to prove indicative, because you can take statistics and twist them into what you want and do what you want with them.

In terms of what you said, I understand that the plight of the poor must depend upon economic growth; is that right? Their well-being in the future is basically linked to economic growth, is that the base assumption?

Mr. STOCKMAN. Not quite, no. I said that there are really four groups among the poor. The elderly poor are rather unaffected by economic growth. They depend on social security and the transfer payment programs, and therefore economic growth really is not relevant to the problem of the elderly poor.

Mr. GUARINI. OK, their problems are different. What you wanted to do was to cut the COLA's out completely, so therefore they would not be so well off or secure. As I understand it, in Fortune magazine you said one of the greatest mistakes you made was that the cost of living adjustments, the COLA's, were not cut out of Social Security in 1981. I believe you feel that way philosophically; is that correct?

Mr. STOCKMAN. I simply tried to point out in my testimony that if you include the value of in-kind benefits to the elderly, there is very little remaining poverty among the elderly, 3 percent, 1 million people. That is still too much, but basically the system that we have in place has steadily reduced poverty almost to the vanishing point among the elderly.

Nobody is talking about changing that system. There may have been arguments how you keep it solvent, and what you do on the margin, and we finally did delay the COLA in 1983 by bipartisan consensus because it was needed to keep the whole system solvent, and everybody benefiting.

Mr. GUARINI. Then if it was not needed, why was the administration's thrust to get rid of or to have your COLA even if it were under 3 percent? Because I understand just recently the administration came out and said, give everybody whatever COLA there is, even if there is a 3-percent cap.

So therefore that is inconsistent with what the administration said originally and what they did within the last year. Is that correct?

Mr. STOCKMAN. I do not think so.

Mr. GUARINI. I mean, if they are so well off, why give them the COLA at all?

Mr. STOCKMAN. Because the only thing that maintains their real benefit over time, unless you have a zero inflation economy, is the COLA. If you eliminate the COLA for several years, the rate of poverty among the elderly will begin to rise, and the longer you eliminate it, the more rapidly it will rise.

Mr. GUARINI. Was it necessary to eliminate the 3 percent then?

Mr. STOCKMAN. That is a different issue. That is a provision of the law that says that if the inflation rate is 3.1 you get it all, and it is 2.9, you get zero.

Mr. GUARINI. Well, was that a financial decision that was made for the poor and the elderly, or was that rather a political decision?

Mr. STOCKMAN. Well, it appeared to us that there was an election campaign underway, and that under the provisions of the law it would not be known until October whether or not——

Mr. GUARINI. That is an honest answer.

Mr. STOCKMAN. Well, let me finish. It is not quite as bald as you might think it sounds. The inflation rate was running so close to the 3-percent threshold that it would not finally be determined until October, and it just did not seem that it would be worthwhile to have a great debate in October if it came in at 2.9.

Mr. GUARINI. Go through the other three categories. You said that the plight of the poor depended on economic growth, and you challenged that assumption.

Mr. STOCKMAN. Well, I said a third of the poor consist of the people in female-headed households. A small portion of them benefit enormously from economic growth, and they have relatively high incomes already. But most are entirely dependent on the transfer payment system, and therefore economic growth in the short run is not going to help solve the problem there, either.

It is the latter two categories, male-headed households and single individuals, where almost all of their income is derived from the marketplace, and any prospect for reducing poverty requires a higher rate of economic growth, more jobs and opportunities for these people.

Mr. GUARINI. So therefore those two latter areas do depend on economic growth?

Mr. STOCKMAN. That is right. That is half the poverty population.

Mr. GUARINI. All right. Let us talk about that part now. Economic growth from what I understand, depends upon social cuts in the budget because if you do not cut the budget, you are not going to have economic growth therefore you must hurt them before you help them, because unless you have cuts in social services in the budget, you will not have economic growth.

And my answer is, where are these people to go? They are damned no matter how you look at it, because you have got to cut the social service programs in the budget according to what I have heard, if you are going to have any economic growth in the first place.

Mr. STOCKMAN. I do not think it is that black and white. There are a lot of other things in the budget besides means tested transfer payments.

Mr. GUARINI. Where would you cut?

Mr. STOCKMAN. Well, you might—I do not want to get into a budget debate, I told you, but there are a lot of other areas.

Mr. GUARINI. Would you cut entitlements? Where would you cut? Would you cut food stamps?

Mr. STOCKMAN. Well, that is a means tested benefit. We made some major reforms in 1981.

Mr. GUARINI. In 1981 you said that one of the mistakes you made was that you did not cut the farm programs. Just this week we gave——

Mr. STOCKMAN. I still think that was a mistake.

Mr. GUARINI. A mistake, but yet just this week we suggested giving a moratorium to farmers who are in desperate shape, and $630 million in guaranteed farm loan programs. Now, if that was a mistake then, is that a mistake this week?

Mr. STOCKMAN. I was talking about two different things. I was talking about the price support programs. These are credit programs.

Mr. GUARINI. But it all links in, because if you do not have the price support, then you cannot pay for your mortgage, and you have to get loan guarantees.

Mr. STOCKMAN. Well, it can work the other way. The price supports cause overproduction, which increases the demand for credit. So I do not think they were very well coordinated.

Mr. GUARINI. Well, let me share with you two meetings I had this week with two presidents of Fortune 500 companies. In talking with them, I learned that they had a major concern about the hard dollar and how they cannot compete selling their products abroad, which we know is one of the problems in our country. The high interest rates are hurting them very, very badly, and they told me that they are on crash programs to build plants abroad.

Now, that means that they are going to put their money and their production and their plants in foreign countries where they can get perhaps cheaper labor and other concessions. Now, when that happens, we are going to have more unemployment because the $130 billion trade deficit translates into millions of jobs.

Now, if that happens, where are we going to go in the future if we expect we are going to have more welfare cuts, because from what I can see, if this is true, what they tell me, we are going to have higher unemployment, and higher unemployment is going to mean more unemployment payments, more welfare. More people are going to fall under the poverty line.

So, which direction will our country be going in with the policies that we have been maintaining? And how in the world could you ever have more budget cuts if we are worsening our unemployment problem?

I mean, I would like your comment on that.

Mr. STOCKMAN. Well, those are some pretty good questions, but I do not know that anybody can figure out all of those factors that you have enumerated.

Mr. GUARINI. Do you not see higher unemployment down the line with a $130 billion trade deficit, and will that not call for increased outlays for social programs?

Mr. STOCKMAN. Well, I think that is going to have to correct itself over time, but it is not clear that the dollar will remain currently at its present exchange rate. In the short run we are getting some very important advantages from the high dollar, very low inflation, as the price of imported goods holds down domestic prices as well as the price of U.S. export goods. Lower inflation is permitting a higher rate of real growth. I mean, it is not just all or nothing. It is not black or white. These are complicated interactions.

Mr. GUARINI. What you are telling me is that——

Mr. STOCKMAN. We have to be concerned about it, but I do not know that you would want to draw the worst case conclusions necessarily either. We will have plenty of time to diagnose that as we prepare for next year's economic policy and budget plan, and I am sure that there will be different views, but I cannot see a lot of point in trying to untangle all of that today.

Mr. GUARINI. But, you see, what you are really talking about is making people suffer more before things get better. If we do not have jobs for our people, then we are going to have higher social costs.

Mr. STOCKMAN. I have a hard time following this, because I do know it is an empirical fact that there are 6.5 million more people in jobs today than 2 years ago, that the inflation rate today is 3.5 percent and not 12 percent. I do think people are much better off with 3.5 percent inflation than they were with 12.

Does that mean that every single problem has gone away, that we do not have a high dollar problem? OK, there are remaining problems. We have to deal with them.

Mr. GUARINI. Can I answer you? When we had 12.5 million people unemployed, we created a time such as now that we could put people to work because consumers were ready to buy products again, such as automobiles and other durable products.

So therefore we had tremendous unemployment in order to have these quote, end quote, good times that we supposedly have today, and when we reach that saturation, we are going to go back to bad times again.

Mr. STOCKMAN. There is a danger. I would think there is a danger of that if we do not make the right decisions regarding the new problems that are facing us on the horizon. But I do not think you should assume that it is immediately going to head for the worst. I cannot see any basis for that.

Mr. GUARINI. Well, the bottom line is, do you expect to cut any other social programs in the near future beyond what we have cut as of now?

Mr. STOCKMAN. Well, I am just going to refuse to speculate on that. Social program, I do not know what that means. It could mean anything in the budget.

Mr. GUARINI. Has the President not said we have to cut again and again? And when are we going to start cutting our military budget? Is that not causing us part of the problems that we have today?

Mr. STOCKMAN. In 1984, the military budget is $30 billion lower than what we originally proposed. I would call that a cut.

Mr. GUARINI. I came into Congress 6 years ago. It was $148 billion. Now it is over $300 billion. That is a tremendous increase. That is more than what would normally be expected, and it is being taken away from the other programs that are crucial—critical social programs: health care, housing, and other basic programs for our people.

All right. We will never agree, and there is no sense in my continuing the discourse, but I just want to end up with one question.

Do you feel that it is a responsible, internationally principled, policy to keep borrowing heavily on the world market?

Mr. STOCKMAN. Well, I think it is obvious to everybody you cannot do it indefinitely, but I think business cycle history clearly shows that for temporary periods of time it is possible, and that it has had salutary effects.

So we have to be worried about the dimension of borrowing at the present time, but unless we are willing to assume that we are going to do that permanently, I am not sure that it is a cataclysmic problem.

Mr. GUARINI. We have a $200 billion deficit this year, and in looking at the out years. Over the next 5 years, even on the base line economic assumptions of the President, there are still monstrous budget deficits in the approximate range of $150 billion to $200 billion. I assume therefore that we are going to be depending more and more heavily on borrowing overseas. We just repealed a 30-percent withholding tax so that we can go into the foreign market and borrow more. Is that not going in the wrong direction fiscally?

Mr. STOCKMAN. I do not think you could do it for 5 or 6 years. I think you are going to have to bring that fiscal gap closer to balance than it is today. I do not know that you or I disagree on that, or any other member of the committee.

It is just a question of how. I note that it is a few weeks before the election. Nobody is going to come up with a serious recipe for that how, not on your side and not on ours, under those circumstances, so let us be aware of the problem and prepare to treat it after that election is finished.

Mr. GUARINI. And let us hope that after the election is over, there will be more heart for the poor, and that we will be able to have a policy where the middle class will be larger instead of a few percentages slipping into the upper income class and many people slipping into a lower economic class, as we have today.

Do your statistics and does your knowledge bear out the fact that we have a diminishing middle class in America?

Mr. STOCKMAN. No, my statistics show just the opposite. In fact, the first table I presented indicated that in 1983 the top one-fifth, the richest one-fifth contributed essentially $173 billion in their income to the transfer payment system. That transferred that to the lowest one-fifth, and to some degree the second one-fifth.

I do not call that a few percentage getting richer and everyone else getting worse off. I think that is a very substantial amount of income redistribution in a more equitable direction than you would get out of a pure private economy based upon common values that we have in this country.

And I just wonder why people keep insisting on the opposite when basically it is not true, it has not happened, and we ought to just recognize that and argue about other things that are more relevant and more important for what we do in the future.

Mr. GUARINI. Thank you, Mr. Chairman. I just want to conclude and say that I guess the problem that we have in these kinds of debates is one of definition, that we are not really talking with the same understanding of the words. We are talking different levels and different things.

And for that reason we could argue forever and not understand each other, because we are at a difference when we speak of specific terms and definitions.

Thank you, Mr. Chairman.

Chairman RANGEL. Chairman Ford?

Chairman FORD. Mr. Chairman, I would yield to Mr. Matsui at this time.

Chairman RANGEL. Mr. Matsui?

Mr. MATSUI. Mr. Stockman, I just wanted to ask you one question regarding the tax burden on those people that are at or below the poverty line. You undoubtedly have the statistics already, but in 1978 a family of four at or below the poverty line had approximately 4 percent of their income paid in the form of either payroll or Federal income taxes.

In 1984, that same family of four will have approximately 10.1 percent of its income paid to the Federal Government in the form of either property, payroll, or income taxes. It is approximately a 250-percent increase from 1978, or 6 percent of their income from 1978 to 1984.

We had the 1981 tax bill, of course, and for some income groups there were some rather significant reductions in overall payroll and income taxes.

Will the administration in 1985, if the President is reelected, come up with anything to deal with this problem for that family of four at or below the poverty line?

Mr. STOCKMAN. Well, you cited so many statistics so rapidly there, I am not quite sure what you said. It does not seem correct to me to believe that that big a tax increase at the poverty line occurred over that period. I would rather check out your proposition before I could pose a solution.

Mr. MATSUI. The Treasury Department did substantiate these numbers here, and I will bring them to you.

Mr. STOCKMAN. Let me take a look at them, and maybe I could answer it.

[Pause.]

Mr. STOCKMAN. Well, you were referring to a family of four, and these numbers suggest that taxes rose from 4 percent to 10.1 percent of income between 1978 and 1984.

Mr. MATSUI. Right, and I am not talking about how it happened or the fact that payroll and Social Security taxes have gone up, because I do concede that. Some of those initiatives were in the Carter administration, when we increased Social Security taxes in, what, 1978 or 1977, but I am not concerned at this time with that question.

I am wondering whether or not, knowing the fact that these people have had an increase in their tax burden, if the President is reelected, will he come back in 1985 with some initiative to alleviate this increase in the tax burden of these people?

Mr. STOCKMAN. We have been trying here for 4 years to reduce taxes, and various people up here have either resisted that or criticized it, so now you are asking me whether we are going to have another proposal.

Mr. MATSUI. Did you initiate anything in 1981 to deal with this specific income group?

Mr. STOCKMAN. The tax changes we initiated in 1981 benefited every income group.

Mr. MATSUI. Why did taxes go up like this then?

Mr. STOCKMAN. Well, it would not be as a result of income taxes.

Mr. MATSUI. Their tax burden is up if you include the payroll taxes and the income taxes.

Mr. STOCKMAN. Well, there were some in 1978 who thought that a huge payroll tax increase was not the wisest idea in the world.

Mr. MATSUI. Are you aware of the fact that their taxes have gone up 250 percent now? Do you think something should be done about it?

Mr. STOCKMAN. Well, I think it needs to be analyzed, yes.

Mr. MATSUI. In what way analyzed? What do you mean by analyzed? Another report? More testimony before the committee? And finding excuses why it should not be, or what?

Mr. STOCKMAN. Well, I do not know what you want by way of an answer. You must have a solution. I am waiting to hear yours.

Mr. MATSUI. We did try to deal with the earned income credit. I mean, you obviously are aware of that, because that was in the recent conference.

Mr. STOCKMAN. I believe we raised that.

Mr. MATSUI. We did raise that at the initiative of the Ways and Means Committee. Mr. Rostenkowski was the one who was pushing that, along with Mr. Rangel. We wanted to do a little better than that, but we understand that OMB and also Treasury was opposed to doing a little better than that.

Mr. STOCKMAN. Well, there is a question of the deficit and whether you are going to widen it or close it.

Mr. MATSUI. Why do we not forget about enterprise zones and your tuition tax credit and a few other things that would have increased the deficit, and maybe help some of these people that you are so concerned about?

Mr. STOCKMAN. Well, we have different choices as to who we try to help. Let us just accept that as a fact, and move on.

Mr. MATSUI. We have different choices as to who we want to help? Is that what you said? Please tell me what that statement means. I do not quite understand it. There is some ambiguity.

Mr. STOCKMAN. I think it is very obvious. You have got various proposals for reducing taxes that you think would do some good, and you have justification, and we have got others, and in some cases we disagree.

Mr. MATSUI. Then you are disagreeing with attempts to help this category of people in this particular——

Mr. STOCKMAN. I am not saying that. I am just saying I am not sure what these statistics prove. I would have to analyze them.

Mr. MATSUI. Well, I am happy that you are going to analyze it, and I am frankly happy after 3½ years that you are now aware of it.

No further questions.

Chairman RANGEL. Mr. Ford?

Chairman FORD. Mr. Chairman, first I would like to ask unanimous consent that my opening statement that I did not go over be printed and made a part of the record.

[The material referred to follows:]

STATEMENT OF CONGRESSMAN HAROLD FORD, CHAIRMAN OF THE SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, AT THE SECOND HEARING TO EXAMINE THE POVERTY RATE INCREASE FROM 1982 TO 1983 AND THE REASONS FOR IT

Thank you Chairman Rangel.

In 1980, the poverty rate stood at 13 percent. By 1982, it had grown to 15 percent. In 1983, it inched up to 15.2 percent. The facts—whether President Reagan chooses to ignore them or not—are clear. Too many Americans live in poverty today and their numbers are growing. Today's hearing is an important step in the process of understanding the reasons for the steady rise in poverty and identifying policies that will reverse the trends.

I am particularly pleased that Office of Management and Budget Director David Stockman is here with us this afternoon. Last year, Mr. Stockman made a bold prediction. He said he was "absolutely confident" that the poverty rate for 1983 would decline dramatically. It was his hope that lower inflation, reduced unemployment, and an increase in real disposable income would reduce poverty.

Unfortunately, Mr. Stockman's prediction did not prove to be correct. The poverty rate has continued to increase and, although inflation has ebbed, the basic benefits that people below poverty count on have continued to erode, helped at least in part by Reagan Administration policies. Today, AFDC benefits are worth more than 30 percent less than they were in 1970. An 8 percent decline in the value of AFDC and food stamp benefits occurred between 1980 and 1984 alone for families of three with no other income. The bulk of this decline in purchasing power—roughly 6 percent of it—is because AFDC has not kept pace with inflation. Inflation may be lower today than it was in 1980, but it continues to devastate those families who rely on AFDC.

Although unemployment has now declined from its frightening double-digit levels, the current rate of 7.4 percent is still too high. For those working single parents who are supporting their families on income that is well below poverty, the situation remains grim. They have lost considerable ground since 1980 unless they have been able to increase their earnings by over 70 percent. And, even if they have managed to earn more, their disposable income has probably dropped, not increased, as Mr. Stockman predicted.

The most alarming statistic concerns children in poverty. Fully one-third of all poor Americans are children. Twenty-five percent of children under 6 live in poverty. If we continue to only debate the poverty statistics and argue over who is responsible for the steady increase in the number of poor people, we are foreclosing our children's future.

I am pleased that Mr. Stockman is with us this afternoon. He will probably want to talk some more about the poverty numbers but what I really want to know is what the Reagan Administration plans to do to reduce poverty. If the Administration has no plans, we will have to proceed without them. Thirty-five million people—12 million of their children—are depending on us.

Chairman FORD. No. 2, Mr. Stockman, I did not have any further questions, but on Mr. Matsui's last question to you, you talked about certain people being helped, his philosophy, the things that Mr. Matsui was talking about, I guess, and you made reference to some Democrats here in the Congress, and the signal that we were trying to send with the different proposals.

Are you saying or are you implying at this point that this administration has not tried to send a clear signal as it relates to trying to give some relief, some help to the 35 million people who are now living at or below the poverty level?

Mr. STOCKMAN. I think that has been the thrust of everything that I have said today. That is unacceptable. We cannot allow that to persist over time. It is not easy to reduce, as we have learned, because poverty increased by 10 million over the last 7 years, partly in your administration and partly in ours.

So, let us accept the fact of 35 million people who are poor today, and hopefully fashion some things next year that will improve that situation.

Chairman FORD. Any recommendations on those things that might improve the conditions of these who are living below or at the poverty level?

Mr. STOCKMAN. I think if we continue to keep inflation down, that will help. If we keep the recovery going and the rate of job creation expanding, that will help. But 1 year's worth of job growth will not solve the problem. It is going to take 3 and 4 and 5 years worth of healthy expansion in the economy before we can begin to work down that very large number of people who are employable but out of the job holding positions today.

Chairman FORD. Three to five more years?

Mr. STOCKMAN. I am not saying that we ought to sit on our hands for 3 to 5 years. I am saying it will take 3 to 5 years of consistent back-to-back strong economic growth to make the kind of large reduction in those poverty numbers, at least on the employable side, the 50 percent that are employable that we were talking about, to make a large and appreciable reduction.

Now, if you know of some way to make the economy grow at 10 percent rather than 5 percent, maybe we ought to look at that, but I have not heard anybody offer that, because I do not think it is possible.

Chairman FORD. So is that the message that we should say and give to the 35 million people who are living below poverty?

Mr. STOCKMAN. Come on. You know, I do not think we are serving any good cause by trying to create the notion that there is a solution to make it go away overnight. It has been building for 8 years, when you have had the majority of this committee and therefore jurisdiction over all of the tax laws that could help and all of the benefit programs that could help and all of the fiscal and tax policies that could help the economy grow, and I have not seen that this committee has solved the problem either over that time.

Chairman FORD. Yes, but it was your administration that told us in 1981 that he would have a balanced budget by the end of fiscal year 1984, and with a surplus of five point some billion dollars surplus.

Now you are telling us what the Congress and the American people are faced with is a $200 billion deficit at the end of 1984. You are telling us 35 more million Americans who are living below poverty must wait for this Reagan administration for another 3 to 5 years for growth.

We are saying that we ought to have some proposals before us in this Congress submitted by this administration to give some hope for the 35 million people who are living below poverty, Mr. Stockman.

Mr. STOCKMAN. Well, what you have just said is not what I said. I said 3 to 5 years of back-to-back economic growth, which we have not had for 10 years. That is one reason why after 15 years of steady poverty reduction from 1958 to the early seventies we turned, we reversed course, and poverty started to rise.

It is because our economy was not performing on a stable, reliable basis. That is why. You know that. Now we have got it going now. Inflation is down to almost minimal levels. We have been creating 5 or 6 million jobs a year.

My only point was, let us keep it going, because if that happens for 3 to 5 years, you are going to make major reductions in the number of employable people who are below the poverty line. I am not advocating we do nothing for 3 to 5 years. You know better than that. I am saying, of what I can think of that will make a big difference over the next 3 to 5 years, that is it.

I have carefully monitored every piece of legislation that comes out of this committee, and I have not seen anything that you have reported or any plan that you have devised that will cause the reduction in the poverty we want to happen in any greater magnitude or any faster over the same 3- to 5-year period.

So why do we not just avoid some of the political theatrics around here, and concentrate on the problem, and be realistic about the difficulty?

Chairman FORD. Well, let me put it another way. As chairman of the Public Assistance and Unemployment Compensation Subcommittee on Ways and Means, the 1981 budget cuts proposed by the Reagan administration is a direct reflection on the budget cuts and the Reagan policies that with AFDC and other social programs we have seen an increase, a significant increase or sharp increase in the number of people who have slipped below the poverty line.

Mr. Stockman, the question before you, once again, is, what will this administration do to make sure that we will not have——

Mr. STOCKMAN. The whole purpose, the whole thrust of my testimony was to try to demonstrate that those cuts in AFDC cannot be reasonably connected to the rise in poverty numbers from 1981 to 1983, and if you believe that is true, why, then, did the poverty numbers rise from 1976 to 1981 when not a dime was cut from AFDC or any other program?

What I have been trying to tell you is that among households entirely dependent on transfer payments, that is, government benefits, there has not been any increase in poverty. Where there has been an increase in poverty is among households dependent upon private income in the marketplace.

And the reason it has been going up for 7 years is that first we had too much inflation, then we had too much recession and unemployment, and if we get the economy back on a stable, expanding track, that source of the setback that we have suffered over the last 7 years can be steadily corrected.

Now, that is what I said all afternoon. It is here in the numbers. Maybe you disagree with it.

Chairman FORD. Mr. Stockman, in 1981, AFDC cuts were targeted to working families. Now you are telling us that your data show that the poverty increased among the people who were working. The question that I have for you now, is this administration antiwork?

Mr. STOCKMAN. I think the answer to that is rather obviously no.

Chairman FORD. Well, you targeted in the 1981 cuts to AFDC working families.

Mr. STOCKMAN. Do you have any evidence that those changes caused people to stop working? Because all of the evidence that has come forth since then indicates that the rate of return to the welfare rolls——

Chairman FORD. The General Accounting Office told us some 493,000 families lost their Medicaid benefits, and 1 million children in this country were affected by that. Yes?

Mr. STOCKMAN. That report did not say they stopped working. You were talking about the changes that affected the working poor.

Chairman FORD. We know that the AFDC cuts were targeted to the working families.

Mr. STOCKMAN. That is exactly right. They were oriented toward families that had earnings. Regarding the 85 percent of AFDC families that do not have earnings and are therefore dependent on the Government for their support, we did not cut anything, and we did not intend to, because we did not think it was right.

Now, among those that had earnings, we were simply trying to change the rules so that there would not be an incentive to depend upon the Government indefinitely, and what do the results of studies that have been done since then show?

They show that there has been no higher rate of return to the AFDC rolls for people who have earnings and leave the rolls because they lose eligibility than there was before the 1981 cuts. That seemed to be your point about whether or not we are antiwork.

The answer is that there is no evidence that we caused people to stop working.

Chairman FORD. Well, the Reagan cuts, Mr. Stockman, are exactly what put these people below the poverty level, the Reagan policies and the Reagan cuts in 1981. We have seen a sharp increase in the poverty rate. You know that. We know that. And it is because of the Reagan policies that we have seen that sharp increase in the poverty rate.

Thank you, Mr. Chairman.

Chairman RANGEL. Thank you, Mr. Stockman.

If there are no further questions, we thank you for visiting with us.

[The following was subsequently received for the record:]

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC, October 26, 1984.

Hon. DAVID A. STOCKMAN,
Director, Office of Management and Budget, Old Executive Office Building, Washington, DC.

DEAR MR. STOCKMAN: On behalf of the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation, we wish to thank you for testifying during the joint hearing held on September 20, 1984. Your testimony was important in aiding the Subcommittees' understanding of the Administration's response to the recent increases in the poverty rate.

Attached are several questions which were transmitted informally several weeks ago by staff for the record. The answers will greatly aid our understanding of the data base which was utilized in preparing your testimony. In addition, there are several other questions we would like answered. Your prompt response would be helpful.

Again, we appreciate your testimony.

Sincerely,

CHARLES B. RANGEL,
HAROLD FORD.

Enclosure.

1. Do table 7 for female-headed households.
2. Do table 7 subtracting taxes for the entire population and for female-headed households.
3. Do table 7 subtracting taxes and in-kind health benefits for female-headed households.
4. What percentage of the female-headed households for 1981 and 1983 had children?
5. For 1983 and 1981 develop the income and transfer components for the fouth line in table 1 for each quintile. The income and transfer components should be separated into the following: (a) earnings and self-employment income, (b) other private money income, (c) social insurance cash transfers, (d) means-tested cash transfers, (e) Federal taxes, (f) in-kind non-health transfers and (g) in-kind health transfers. Obviously, finer definitions of income would be welcomed and, if necessary, (a) and (b) can be combined. For each quintile indicate the number of units and individuals and the income boundary amount.
6. For each quintile indicate the number of units for each of the four types of mutually exclusive and exhaustive categories that were analyzed in Mr. Stockman's testimony.
7. Repeat question 5 above for female-headed households.
8. For 1983, force the same percentage of female households that are in each group to be the same as in 1981. Then provide the income components as defined in question 5. Another way of asking the same question is to divide female-headed households into quintiles for both 1981 and 1983. And, then with those quintiles provide the information requested in question 5 above.
9. On the basis of information supplied last year, we have computed the following table. Is this table correct and what is this table if health benefits were excluded.

CONSTANT DOLLAR MEANS-TESTED TRANSFER PAYMENTS

[In billions of 1983 dollars]

	Mean-tested transfers	Noncash	Cash
1980	76.5	52.3	24.2
1981	83.7	58.6	25.1
1982	81.3	58.2	23.1
1983	85.3	62.1	23.2

10. Add 1980 and 1981 to table 8.
11. Repeat question 5 for elderly households.
12. Repeat question 5 for families with children that are included under "other adults".
13. On page 13 of your statement, you acknowledge that there remains legitimate arguments about specific gaps, inadequacies and inefficiencies in our transfer payment system. From your perspective, what are these gaps?
14. In a response to a question from Congressman Ford, you stated that "most of the corrections that needed to be made have been made . . . except for maybe small changes in the issue of the error rate. . . ." What did you mean by changes in the error rate?
15. On page 24 of your statement, you state that "Reversing the poverty count among female-headed households will require more effective policy mechanisms to meet the needs of the lower one-half of female-headed households than now exist." What are those more effective policy mechanisms? Can we grow our way out of female-headed poverty?
16. Given the large increase in real tax burdens from 1978 to 1984 for families with wages near poverty, should these tax burdens be reduced?

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, November 6, 1984.

Hon. CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, Washington, DC.

Hon. HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, House of Representatives, Washington, DC.

DEAR CHARLIE AND HAROLD: In followup to my testimony before your subcommittees on September 20, your staff have given us a list of questions which I understand you will be transmitting to me formally for my response. Because I know you are interested in having the information as soon as possible, I am sending my response prior to receiving your request.

In addition to the responses to your questions, the enclosure includes an explanation of the methodology used in preparing the special tabulations of the Current Population Survey used in my testimony.

I welcomed the opportunity to testify on poverty before your subcommittees once again, and I hope you find the enclosed material useful.

Sincerely,

DAVID A. STOCKMAN, *Director.*

Enclosure.

RESPONSE OF DAVID A. STOCKMAN TO QUESTIONS OF THE HOUSE WAYS AND MEANS SUBCOMMITTEES ON OVERSIGHT AND ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

Question 1. Do Table 7 for female-headed households.

Question 2. Do Table 7 subtracting taxes for the entire population and for female-headed households.

Question 3. Do Table 7 subtracting taxes and in-kind health benefits for female-headed households.

Answer. Table 7 in the testimony shows the impact of transfer payments on the poverty count in 1981 and 1983, with the effects of cash and in-kind transfers shown separately. In partial response to question 2, below is that table expanded to show the effects of subtracting taxes for the entire population.

TABLE 1.—IMPACT OF TRANSFER PAYMENT PROGRAMS AND TAXES ON POVERTY COUNTS, 1981 VERSUS 1983

[All households in millions]

Income measure	Persons below poverty line		
	1981	1983	Change
Poverty count based on private money income	52.6	55.9	+3.3
Impact of cash transfers	−20.4	−20.5	−0.1
Poverty count after transfer cash income	32.2	35.4	+3.2
Impact of in-kind transfers	−12.2	−13.1	−0.9
Poverty count after all income transfers	20.0	22.3	+2.3
Impact of Federal taxes	+2.2	+2.3	+0.1
Poverty count after transfers and taxes	22.2	24.6	+2.4

Source: Special tabulations on March CPS data.

You also have asked for a modified version of Table 7 which provides information only on female-headed families. That information is in Table 2 below.

TABLE 2.—IMPACT OF TRANSFER PAYMENT PROGRAMS AND TAXES ON POVERTY COUNTS, 1981 VERSUS 1983

[Nonelderly female-headed families in millions]

Income measure	Persons below poverty line		
	1981	1983	Change
Poverty count based on private money income	14.0	14.7	+0.7
Impact of cash transfers	−2.4	−2.1	+0.3
Poverty count after transfer cash income	11.6	12.6	+1.0
Impact of nonmedical in-kind transfers	−2.4	−2.4	0.0
Poverty count after income transfers except medical	9.2	10.2	+1.0
Impact of medical transfers	−2.6	−3.1	−0.5
Poverty count after all income transfers	6.6	7.1	+0.5
Impact of Federal Taxes	+0.3	+0.3	0.0
Poverty count after transfer and taxes	6.9	7.4	+0.5

Source: Special tabulations on March CPS data.

While we have developed the information you have requested for Table 2, we would note that it must be used with great caution. The number of non-elderly female families is small, accounting for just over 10 percent of households. In addition, participation of the non-aged in Federal programs is relatively volatile. As a result, substantial variability can occur in survey data simply by chance. Special CPS runs are required to develop the data in Table 3 and we do not have runs for years prior to 1981. Therefore, we cannot illustrate the variability over time in the data elements in Table 3. However, the Census Bureau compiles similar data which do illustrate the inherent variability in disaggregated income data for female-headed families.

The data compiled by the Census Bureau are for female-headed families rather than for persons in such families, and they reflect greater aggregations of income than the data you have requested. These Census data indicate how many non-elderly female-headed households are poor counting (1) all cash income but Social Security, SSI, and public assistance and (2) all cash income. These data show the following for the years before the Reagan Administration policies were put into place:

TABLE 3.—POVERTY AMONG NONELDERLY FEMALE-HEADED FAMILIES

[In thousands]

	Families below poverty line		Change
	Cash income before three major transfers	Total cash income	
1977	3,038	2,341	−697
1978	2,979	2,400	−579
1979	3,012	2,407	−605
1980	3,314	2,784	−530
1981	3,605	3,056	−549

[1] Transfers omitted are Social Security, SSI, and Public Assistance.
[2] Estimate.
Source: Unpublished Census data.

Note that there is substantial variability in the "change" numbers. For example, the data suggest that 118,000 fewer families were lifted out of poverty by cash transfers in 1978 than had been lifted out in 1977, one year before. During this period, no Federal legislative changes affecting eligibility or decreasing benefits in these programs were implemented. While some of the "decrease" might stem from erosion of AFDC benefits, which are not indexed to inflation, much of it could be due simply to chance. The difference in the Census "change" figures for the two-year period 1981 to 1983 (−120,000) is approximately the same as the difference for the one-year period from 1977 to 1978 (−118,000).

Question 4. What percentage of the female-headed households for 1981 and 1983 had children?

Answer. The data you requested are in Table 4. Because the other tables derived from special CPS tabulations that you have requested reflect data on people rather than households, we also have provided information on the number of persons in female-headed families with and without children.

TABLE 4.—NONELDERLY FEMALE-HEADED FAMILIES AND PERSONS IN THOSE FAMILIES

	Millions of families		
	1981	1983	Change
Nonelderly female-headed families:			
All families	10.1	10.8	+0.7
Families with children	7.5	7.8	+0.3
Families without children	2.6	3.0	+0.4
Percent of families with children	74.3	72.2	−2.1
Persons in nonelderly female-headed families:			
All persons	31.6	33.2	+1.6
Persons in families with children	25.4	25.9	+0.5
Persons in families without children	6.2	7.3	+1.1
Percent in families with children	80.4	78.0	−2.4

Source: Special tabulations on March CPS data.

Question 5. For 1983 and 1981 develop the income and transfer components for the fourth line in Table 1 for each quintile. The income and transfer components should be separated into the following: (a) Earnings and self-employment income, (b) other private money income, (c) social insurance cash transfers, (d) means-tested cash transfers, (e) Federal taxes, (f) in-kind non-health transfers, and (g) in-kind health transfers. Obviously, finer definitions of income would be welcomed and, if necessary, (a) and (b) can be combined. For each quintile indicate the number of units and individuals and the income boundary amount.

Question 7. Repeat question 5 above for female-headed households.

Answer. In our study of income distribution, we did not examine specific components of income for each quintile. Measurement of specific income components in the Current Population Survey is problematic, a fact reflected in undercount statistics. The Census Bureau reports substantial underreporting for a variety of income types, with less than 50 percent of the amount of some income components reported. In addition to the problem of underreporting, a detailed table of income sources for each quintile would contain a number of categories for which few observations are available. As a result, much of the information in such a table would be subject to such substantial variability it would not be useful. These problems are particularly significant in analyzing the incomes of female-headed families because of their smaller sample sizes. For these reasons, we have not done the computer programming necessary to generate detailed income data by quintiles.

Question 6. For each quintile indicate the number of units for each of the four types of mutually exclusive and exhaustive categories that were analyzed in Mr. Stockman's testimony.

Answer. See Table 5.

TABLE 5.—NUMBER OF HOUSEHOLDS IN QUINTILE TABLES

[In millions]

	Lowest	Second	Third	Fourth	Highest	Total
1981:						
Total households	17.8	17.9	17.9	17.9	17.9	89.3
Elderly households	5.1	4.6	3.6	2.4	1.9	17.5
Female-headed families	2.3	3.0	2.1	1.5	1.1	10.1
Young singles	2.9	1.3	0.4	0.1	0.0	4.7
Other adults	7.5	9.1	11.7	13.9	14.7	57.0
Male-headed families	2.3	4.9	8.4	12.1	14.1	41.9
Adult singles	5.2	4.2	3.3	1.8	0.6	15.1

TABLE 5.—NUMBER OF HOUSEHOLDS IN QUINTILE TABLES—Continued

[In millions]

	Lowest	Second	Third	Fourth	Highest	Total
1983:						
Total households	18.4	18.4	18.4	18.4	18.4	92.0
Elderly households	4.6	4.8	3.8	2.9	2.3	18.3
Female-headed families	2.6	3.2	2.1	1.7	1.3	10.8
Young singles	3.0	1.1	0.4	0.1	0.0	4.5
Other adults	8.3	9.3	12.1	13.8	14.9	58.4
Male-headed families	2.7	5.0	8.5	11.8	14.0	42.0
Adult singles	5.6	4.3	3.6	2.0	0.9	16.4

Source: Special tabulations on March CPS. Quintiles based on total after-tax income.

Question 8. For 1983, force the same percentage of female households that are in each group to be the same as in 1981. Then provide the income components as defined in question 5. Another way of asking the same question is to divide female-headed households into quintiles for both 1981 and 1983. And, then with those quintile provide the information requested in question 5 above.

Answer. This question asks for detailed sources of income for female-headed families similar to that requested in question 5, with an additional restriction. The restriction is to divide female-headed families into groups which are the same size in both 1981 and 1983. As discussed above, we did not attempt a study of detailed income sources across quintiles of the populations. Note, however, that the percentage distribution of non-elderly female-headed families across quintiles is roughly the same between 1981 and 1983. These distributions are shown in Table 6, which is derived from Table 5 above.

TABLE 6.—PERCENTAGE DISTRIBUTION OF NONELDERLY FEMALE-HEADED FAMILIES, 1981–83

	Percent in quintiles				
	Lowest	Second	Third	Fourth	Highest
1981	23	30	21	15	11
1983	24	30	19	16	12

Source: Special tabulations on the March CPS. Quintiles based on total aftertax income.

Question 9. On the basis of information supplied last year, we have computed the following table. Is this table correct and what is this table if health benefits were excluded.

CONSTANT DOLLAR MEANS-TESTED TRANSFER PAYMENTS

[In billions of 1983 dollars]

	Means-tested transfers	Noncash	Cash
1980	76.5	57.3	24.2
1981	83.7	58.6	25.1
1982	81.3	58.2	23.1
1983	85.3	62.1	23.2

Answer. Below is the table augmented to show Medicaid data.

TABLE 7.—CONSTANT DOLLAR MEANS-TESTED TRANSFER PAYMENTS

[Billions of 1983 dollars]

	Means-tested transfers	Cash	In-kind	Medicaid	Percent Medicaid is of in-kind
1980	$76.4	$24.2	$52.2	$16.9	32.4
1981	83.6	25.1	58.5	18.4	31.5
1982	81.3	23.1	58.2	17.9	30.8
1983	85.3	23.1	62.1	19.0	30.6

Note.—Benefits are Federal outlays at the account level plus the State share, where applicable. Cash includes AFDC and SSI and predecessor programs. In-kind includes Medicaid, Housing, Food Stamps and commodities, Child Nutrition, and LIHEAP

Source: Budget data.

Question 10. Add 1980 and 1981 to Table 8.
Answer. See Table 8.

TABLE 8.—POLICY-RELATED POVERTY GROUPS: 1980–83

[People in thousands]

Indicator	Elderly	Nonelderly			Total
		Female headed	Young singles	Other adults	
Poverty measure:					
Number below poverty:					
1980	3,871	9,852	1,275	14,274	29,272
1981	3,853	10,792	1,426	15,751	31,822
1982	3,751	11,286	1,349	18,012	34,398
1983	3,711	11,689	1,526	18,340	35,266
Poverty rate (percent):					
1980	15.7	38.5	27.2	8.4	13.0
1981	15.3	40.4	31.7	9.2	14.0
1982	14.6	42.1	32.0	10.4	15.0
1983	14.1	42.1	35.8	10.6	15.2

Source: Census Bureau.

Technical Note on Special CPS Tabulations in 1984 Poverty Testimony

PURPOSE

In September 1984, the Director of the Office of Management and Budget testified before the House Ways and Means Subcommittees on Oversight and Public Assistance and Unemployment. The testimony contains analyses based on special tabulations on Bureau of Census data. This note explains the data base and methodology used for these tabulations.

OVERVIEW

Special tabulations were done on March Current Population Survey (CPS) public use files available from the Bureau of Census. These tabulations employed the poverty levels, money income concepts and reporting unit definitions [1] used by Bureau of Census in various publications series, including "Money Income of Households, Families and Persons in the United States, Characteristics of the Population Below the Poverty Level" and "Characteristics of Households and Persons Receiving Selected Non-Cash Benefits." There are two minor differnces from Bureau of Census tabulation specifications which very slightly increase the number of poor persons and the poverty rates above those in existing published and unpublished Bureau of Census tabulations for cash income.

[1] For ease of discussion, the term "households" is used as an inclusive term for Census-defined families plus unrelated individuals. However, counts were done using Census reporting unit definitions, with minor exceptions (explained below).

Tabulations were also done using Census reporting unit definitions but (a) counting only private-source income; (b) counting in-kind as well as cash income; and (c) subtracting Federal income and payroll taxes from income. For in-kind income, values were assigned to government benefits whose recipiency was reported in the CPS. These values were based on government cost. For after-tax income, values of Federal income and Social Security taxes were estimated using a tax-simulation model.

Survey data on recipiency of cash and in-kind income were used without adjustments for undercounts, and dollar amounts of cash income were also used as reported, without adjustments.

CURRENT POPULATION SURVEY

The CPS is the monthly survey from which population, labor force, and unemployment estimates are made by Bureau of Census and Department of Labor for the United States. Each March, supplementary questions on income in the previous year are added to the survey. This March survey is used by Bureau of Census for annual estimates of income, demographic characteristics and poverty status of the U.S. population.

More specifically, the March CPS:

Covers the civilian, non-institutional population. Persons in institutions (e.g., nursing homes, hospitals, or jails) in March are excluded, as are persons who died during the preceding year. Members of the Armed Forces living off-post or with their families on-post are included, but all other members of the Armed Forces (service persons on-post without families) are excluded.

Covers the 50 States and District of Columbia. Residents of the territories and Americans overseas are excluded.

Has a stratified cluster-sample of over 60,000 households. Sampling errors are relatively small, i.e., 0.27 percent of an estimated 100,000 persons or families or 100,000 $\pm$527 at a 95 percent level of confidence. The response rate (completed interviews) is over 95 percent.

Social and demographic characteristics, such as family composition or age, are reported as of the March survey. While the survey unit is the household—all occupants of a housing unit—published data and tabulations usually are reported in terms of (1) families and unrelated individuals or (2) persons. A Census family consists of two or more related persons (related by blood, marriage or adoption) living together in the same household. A Census unrelated individual for poverty counts is a person age 15 or over not living with a relative. Census households may have more than one family or may consist of one or more unrelated individuals or of families and unrelated individuals. Persons in families plus unrelated individuals plus persons age 14 or younger not living with relatives equal total persons in households.

Income is reported for the previous calendar year and covers income of all persons age 15 and over in the survey. The income information is money income before taxes or deductions, and it includes all private sources, such as earnings, profits, child support and alimony, and public sources, such as Social Security, worker's compensation, unemployment benefits, and cash welfare benefits. Proceeds from sale of property or loans or one-time amounts such as tax refunds, inheritances, or insurance settlements are excluded. Educational benefits such as private scholarships, GI Bill or Pell Grant benefits are also excluded.

With the exception of earnings and Food Stamps, no questions are asked in the CPS which allow determination of the length of time during the year that a particular type of income is received. If income from a given source is received for only part of a year, that fact is reflected in the dollar total reported by the survey respondent but is not separately indicated. For example, a family with earnings for six months, on welfare for three months and on Social Security for three months would report all three types of income, but there would be no data on how long they received each. The reported number of persons or reporting unit receiving a particular type of income thus includes anyone who received such income at some time during the year ("ever-ons"). Because people go on and off some government programs, "ever-on" figures may be higher than the average number of persons and reporting units receiving a type of income in any given month. Average income or benefits calculated from CPS data reflect the average number of months for which the income or benefit is typically received. Ignoring reporting problems, for a program where the average participation period is 10 months, the number of recipients reported on the CPS will be 120 percent of the average monthly caseload and the average benefit reported on the CPS will be 83 percent of the annual benefit.

The March CPS now includes questions on recipiency of some types of in-kind income: Medicare, Medicaid, Food Stamps, free and reduced price school lunches, regular school lunches, housing assistance, energy assistance, workplace-related group health insurance, workplace-related pension coverage, and services from CHAMPUS, VA, or military health care systems. Most of these questions are asked of all persons age 15 or over, but some questions (lunches, Food Stamps, and housing) are asked only for the household. In addition, questions are asked about the number of children usually eating school lunches; the number of persons covered, the number of months of participation, and the total amount received for Food Stamps; the total amount received for energy assistance; and which persons were insured under workplace-related group health plans.

As in most surveys, there is some underreporting by surveyed persons in the CPS, which is due to a combination of factors: unwillingness or inability to provide information, difficulty in recalling income amount accurately (especially if small or intermittent), and misclassifying the source of income or benefits, e.g., confusing Social Security and SSI. Overall, almost 90 percent of money income is reported in the CPS, at rates ranging from 98 percent for wages down to 44 percent for property income. (Table 1 shows the latest comparison by Bureau of Census of independent estimates of income with CPS-reported income by source.) The underreporting of income leads to some overestimate of numbers of families and persons below the poverty level. Three different researchers who have adjusted the CPS for underreporting in different years [1] found that these adjustments, alone, reduced the reported poverty level by at least two percentage points.

Recipiency of in-kind government benefits suffers from underreporting also. The degree of underreporting for various benefits resembles that for cash income. Reported recipiency in the CPS ranges from over 100 percent of independent estimates for Medicare and paid lunch down to 78 percent for Food Stamps. Table 2 shows the latest comparison by Bureau of Census of independent estimates of in-kind benefit recipiency with CPS-reported recipiency by benefit.

TABULATION SPECIFICATIONS

The poverty count and quintile tabulations are consistent with each other and use the same definitions, demographic units and technical rules. With minor exceptions these definitions and rules are the Bureau of Census conventions.

Reporting Units.—The basic reporting unit is a Census-type family or unrelated individuals. Tabulations of persons refer to persons in families. They are classified by the characteristics of the family head. Bureau of Census family definitions for reporting units are used with two exceptions:

About 200,000 unrelated children under age 15 with no reported income, excluded by Census in tabulating poverty are included as poor unrelated individuals. This raises the poverty rate by about one-tenth of one percent.

Unrelated subfamilies are included in counts of families. The members of the subfamilies are included in Census counts of persons but excluded in Census counts of families. This increases the count of poor families by 200,000.

Weights.—The CPS contains both person weights and family weights for converting sample data to population levels. The Bureau of Census practice is to use family weights in family tables and person weights in person tables, with the result that income in Bureau of Census household or family tables does not sum to the income reported for persons.

The special tabulations use family weights for both income and for persons in families. This consistent treatment allows calculation of unbiased estimates of income per capita without allocating family-reported benefits among persons in the family.

The family weights result in a slightly lower estimates of total population (four-tenths of a percent lower in 1981, eight-tenths of a percent lower in 1983). However, they do not lead to lower poverty counts. Therefore, poverty rates in the tabulations are about one-tenth of a percent higher than in official Census tabulations due to the choice of weights.

Poverty.—Bureau of Census rules and definitions and their poverty level matrix are used to determine poverty status of reporting units and persons:

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[1] CBO, "Poverty Status of Families Under Alternative Definitions of Income," 1977; Smeeding and Moon, "Valuing Government Expenditures: The Case of Medical Care Transfers and Poverty," 1979, Institute for Research on Poverty; Hoagland, "The Effectiveness of Current Transfer Programs in Reducing Poverty," 1980.

Poverty status for each Census family is computed by comparing the total income of all family members with the Census poverty level for that family size.

Poverty status is computed separately, for unrelated subfamilies and unrelated individuals.

The poverty status of a person is always the same as the poverty status of the reporting unit of which he or she is a member.

Tabulations were done on persons and on reporting units which included Census unrelated subfamilies, families, and unrelated individuals, including persons under 15 years of age.

Quintiles.—For each income definition, quintiles are calculated for the entire population. The units for which quintiles are computed are families plus unrelated individuals. Individual demographic groups are reported as members of these quintiles. Separate quintiles are not done for population subgroups.

Valuation of in-kind government benefits.—To include in-kind benefits in tabulations, values were assigned for each benefit reported by each recipient. Benefits for which values were assigned are Medicare, Medicaid, Food Stamps, free and reduced price school lunch, paid lunch, housing assistance, and energy assistance. No values were assigned for workplace-related group health insurance, workplace-related pension coverage, or services from CHAMPUS, VA, or military health care systems, primarily because of data problems in most of these valuations and because difficult conceptual issues on the valuation of some (most notably pension contributions) have not been subject to much discussion. Their addition to this analysis would reduce the proportion of program recipients in poverty. The recipiency as reported in the CPS was used without any adjustment for non-reporting. Recipiency was simulated in one instance—children of adult Medicaid recipients—because the Medicaid question is not asked of persons under 15, and no children are reported as Medicaid recipients on the CPS.

The values assigned were based on government cost.

Medicare.—Insurance value was calculated as reimbursements in each fiscal year for HI and SMI, net of SMI premium payments, per enrollee. Administrative costs were not taken into account, although insurance premiums normally include overhead. Separate calculations were made for aged and non-aged enrollees. Reimbursements for each year probably represent expenses incurred for an interval three to six months earlier because of the billing lag. In light of the rate of increase in medical costs, the cost estimate is probably conservative. Enrollee figures were average annual, reflecting the normal full-year duration of Medicare enrollment.

Medicaid.—Insurance value was calculated as vendor reimbursements in each fiscal year per categorically eligible Medicaid recipient as shown in Medicaid statistical reports. Administrative costs were not taken into account, nor was any adjustment made for the difference between Medicaid fee schedules and reimbursements and usual private insurance reimbursement levels. Separate calculations were made for the aged, blind and disabled (ABD) SSI population, AFDC adults and AFDC children in each State. The ABD value was assigned to persons receiving SSI, non-SSI recipients 65 or over, and non-SSI recipients under 65 with no children, who are unlikely to be on Medicaid as AFDC-type recipients and are assumed to be ABDs. The AFDC adult and children values were assigned to AFDC recipients own and some related children, and to non-AFDC, non-SSI recipients with children. Expenditures for categorical eligibles (only) were used as the basis for detemining insurance value to exclude the adverse selection occurring in other groups eligible for Medicaid, who must seek benefits rather than having them conferred automatically in conjunction with cash benefits. This methodology, for consistency, would require that benefits be assigned to non-participants who are income-eligible for non-cash categorical or medically needy Medicaid coverage. However, no such assignment of benefits was made, which accounts for much of the understatement of Medicaid benefits in tabulations. Additional understatement results from the lack of recipiency information for children in non-AFDC families ("Ribicoff children"), who are not identified in the CPS, and for the institutionalized, who are not covered in the CPS.

The fiscal year basis and billing lag contribute to some understatement of calendar year incurred government costs, as for Medicare. In addition, expenditures shown in the statistical reports from which the values were drawn historically have been understated. Recipient figures are on an "ever-on" basis, that is, persons receiving benefits at some time during the year; both reimbursements and recipiency therefore reflect part-year participation. The CPS questions asks if the person is "covered by" Medicaid, not if he or she received benefits, and theoretically those responding are enrollees not just recipients of benefits. To the extent that non-recipient enrollees responded "yes," the use of recipient data results in an overstated value. Reportedly only 85 percent of enrollees are benefit recipients—receive reim-

bursed services during a year—but no data on costs by enrollee categories are available.

Food stamps.—The face amount of coupons reported received by the household, adjusted to bring the CPS value for average bonus per person up to the actual program level. The adjustment to the CPS-reported amounts was made because the reported values on benefits per recipient were low compared to actual program data.

Free and reduced price school lunch.—Value was calculated as the average calendar year payment per free meal or reduced price meal multiplied by the average number of meals served each child during a school year. The reduced price value was assigned to children in the highest-income families who report receipt of free or reduced price lunches, and the free lunch value to children in lower-income families.

Regular lunch.—Value was calculated as the average calendar year payment per meal multiplied by the average number of meals served each child during a school year.

Housing assistance.—Net subsidy value was calculated as rental value during the fiscal year less a tenant contribution based on cash income adjusted for average deductions and disregards. Separate calculations were made for aged (62 and over) and non-aged, as well as for public housing benefits and Section 8 rent subsidy. The rental values were based on the operating plus capital cost of public housing and the Section 8 contract rents adjusted for the average apartment size rented to aged and non-aged families. The average deductions and disregards were derived from special tabulations on tenant profile data done by HUD. The public housing values were assigned to families who stated they lived in a public housing project. Section 8 values were assigned to families who did not live in a public housing project but stated that part of their rent was paid by Federal, State, or local government. Some families receiving somewhat lower subsidies were probably included as Section 8 recipients in the published tabulations as a result.

Energy assistance.—Value of the assistance reported by the household. The total value of energy assistance is substantially understated, probably due to underreporting of the value of vendor payments.

ESTIMATED TAX LIABILITY

To calculate after-tax income, Federal payroll and income tax liabilities are estimated and subtracted from income for each household.

Payroll taxes.—For each person with employment income, Social Security taxes are calculated by applying the appropriate rate to wages and salaries or to self-employment income up to the limit of taxable earnings. Hospital Insurance tax only (1.3 percent) is applied to wages and salaries of Federal civilian employees. State and local employees are excluded in the six States and the District of Columbia which do not participate in the Social Security System. State and local employees in specific occupations are excluded in those States with partial participation in Social Security.

Federal income tax.—For each CPS family, the estimation procedure mimics the steps of filing a Form 1040. The steps are as follows:

One or more tax filing units are formed in each household. Each person with income in a household is assigned to his or her own filing unit, except that husband-wife couples are assigned to the same filing unit. Other persons in the household with no incomes are assigned as dependents to these filing units. Children under 18 with income are assigned as dependents. Each filing unit is then assigned a tax status: married joint return, head of household, or single filer.

Adjusted gross income (AGI) is estimated for each filing unit. AGI is estimated as the sum of the taxable sources of income of the adults in the unit, including wages and salaries, self-employment income, interest, rents, dividends, and pensions, and the taxable amount of Unemployment Insurance and Social Security benefits. No values are imputed for income types not on the CPS, principally capital gains. This probably understates the progressivity of taxes, since capital gains are received primarily by upper-income taxpayers.

Exemptions are estimated for each filing unit. The number of exemptions is the number of persons assigned to the unit, with an extra exemption added for each person age 65 and over.

Itemized deductions, if any, are estimated. Not all filing units are assigned itemized deductions. The amount of deductions and the probability of being assigned itemizer status are calculated from Statistics of Income data, with amounts and probabilities varying by AGI, family size, filing status, male or female householder and the number of aged persons in the filing unit.

Tax liability is calculated. Exemptions and deductions are subtracted from AGI for each filing unit, and tax liability is then calculated from the appropriate rate schedule according to tax status. For a married joint return units in which both husband and wife have earnings, the two-earner disregard is applied.

Tax credits, if any, are calculated. Final tax liability is estimated by reducing the liability calculated from the rate schedules by tax credits. The earned income tax credit and the tax credit for the elderly are calculated for eligible filing units. The child care credit is not calculated. The earned income tax credit may result in a negative tax liability (a refund) so that after-tax income for the family in question is higher than pre-tax income.

The tax liabilities estimated by this process are understated. Incomes in the CPS are underreported. The underreporting is particularly severe for property income, which tends to be received by higher-income households. At the upper end, the income distribution shown in the CPS is truncated. For each income type the amounts are top coded—regardless of actual survey responses, any amount above $75,000 is reported as $75,000. This leads to a significant understatement of tax liability for high-income filing units and some underestimate of the progressivity of the income tax.

TABLE 1.—COMPARISON OF CPS MONEY INCOME TOTALS FOR CALENDAR YEAR 1982 WITH INDEPENDENT ESTIMATES

[Dollars in billions]

Source of income	Independent source	CPS	CPS as percent of independent source
Total	$2,273.5	$2,029.1	89.2
Earned income	1,641.9	1,632.6	99.4
Wages and salaries	1,542.3	1,516.9	98.4
Nonfarm self-employment	83.7	106.0	126.6
Farm self-employment	15.9	9.7	60.8
Nonearned private source	362.0	168.4	46.5
Private pensions	47.9	29.4	61.4
Interest, dividends and rents	314.1	139.0	44.3
Social Security and Railroad Retirement	145.2	135.1	93.1
Government retirement	50.5	42.0	83.2
Unemployment, workers compensation and veterans' payments	52.6	34.6	65.8
AFDC	12.9	9.8	76.4
SSI	8.5	6.6	77.6

Source: Bureau of Census tabulations on CPS.

TABLE 2.—COMPARISON OF CPS IN-KIND BENEFIT RECIPIENCY ESTIMATES FOR CALENDAR YEAR 1982 WITH INDEPENDENT ESTIMATES OF RECIPIENTS

[Millions of persons]

	Independent source	CPS	CPS as percent of independent source
Medicare	27.3	27.5	101
Medicaid	27.3		
Food stamps	27.3	21.2	78
Face value of food stamps (billions of dollars)	$9.9	$7.1	72
Free and reduced price school lunch	11.1	11.2	100
Paid (regular) lunch	11.3	16.5	146
Housing assistance (thousands of households)	3.3	3.2	95

Note.—The independent estimate for Medicaid has not been adjusted for decedents or the institutionalized, and does not include persons who were covered by Medicaid but did not receive benefits during the year.

Source: Current Population Reports, Series P–60, No. 136, January 1983.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, January 29, 1985.

Mr. WENDELL PRIMUS,
Ways and Means Committee, House of Representatives, Washington, DC.

DEAR WENDELL: I have checked into our ability to provide you with the additional information on female-headed households you requested by telephone the other day.

As I indicated in our conversation, in the runs underlying Dave's testimony, the bases for the quintile sorts are different for each income definition. That is, households are re-sorted each time the definition changes. In doing the runs, we did not do a detailed income run using the "post-policy" definition (after-tax plus in-kind income). Thus, we cannot give you a table which shows income components for "post-policy" income quintiles.

We can, however, give you the per capita tables you requested. The enclosed table shows the incomes of female-headed families, by quintile, for four income definitions. In using the information, note that some of the entries in this table are based on very few observations, and they may not be reliable. Recall, too, that our definition of female-headed families includes some families without children.

Because of the construction of the quintiles, conclusions about policy effects on incomes cannot be drawn from this table. One cannot conclude, for example, that the net effect of policy on the incomes of people in the lowest income quintile is $2,017 (the difference for 1983 between the "post-policy" income of $2,187 and the "pre-policy" income of $170). This difference understates the net addition to the incomes of people initially in the lowest quintile since many of them move to higher quintiles when cash transfers and in-kind benefits are added to their "pre-policy" incomes. The only way to quantify the effect of policy on incomes is to maintain a fixed population in each quintile as we move from one income definition to another. As the table now stands, differences between "post-policy" and "pre-policy" incomes understate the net gain in incomes to low-income persons and understate the net reduction in incomes (because of taxes) to high-income persons.

Sincerely,

JOHN COGAN,
Associate Director, Human Resources, Veterans, and Labor.

TABLE 1—PER CAPITA INCOMES OF NONELDERLY FEMALE-HEADED FAMILIES, 1981 AND 1983

[In 1983 dollars]

	Household Income Quintiles[1]					
	Lowest	Second	Third	Fourth	Highest	Total
Before-tax private cash income:						
1981	$208	$2,609	$5,614	$8,633	$15,289	$4,799
1983	$170	$2,595	$5,695	$9,004	$16,531	$5,116
Percent of change	−18.4	−0.5	1.4	4.3	8.1	6.6
Before tax cash income:						
1981	$1,392	$3,513	$6,162	$9,910	$15,496	$5,549
1983	$1,321	$3,587	$6,431	$9,470	$16,786	$5,830
Percent of change	−5.1	2.1	4.4	3.8	8.3	5.1
After-tax cash income:						
1981	$1,352	$3,197	$5,316	$7,274	$11,634	$4,756
1983	$1,301	$3,291	$5,493	$7,873	$13,154	$5,016
Percent of change	−3.7	2.9	3.3	8.2	13.1	5.5
After-tax cash plus inkind income:						
1981	$2,163	$3,638	$5,123	$7,113	$11,485	$5,239
1983	$2,187	$3,712	$5,292	$7,690	$13,036	$5,535
Percent of change	1.1	2.0	3.3	8.1	13.5	5.7

[1] Quintiles are based on household incomes, rather than per capita incomes, and are determined using the incomes of all households in the population.

Source.—Special CPS tabulations.

MARCH 8, 1985.

HON. DAVID A. STOCKMAN,
Director, Office of Management and Budget, Executive Office Building, Washington, DC.

DEAR MR. STOCKMAN: Following your September 20, 1984 testimony, Congressman Rangel and I wrote to you with some additional questions so that we could better understand all of the charts and statistics that you presented in your prepared statement. Since that time, we have received two responses from you plus a letter from Mr. Cogan which was addressed to Wendell Primus of our staff. Frankly, these responses raised even more questions about the data and failed to answer one of our most basic questions.

The unanswered question concerns the quintile comparison of 1981 to 1983 for the entire population. It was our belief that the bottom quintile lost income in real terms between 1981 and 1983. To date, your staff has not provided the data necessary to judge whether this is the case. So that I am perfectly clear, please supply tables, similar to the one Mr. Cogan provided for female-headed families, for the entire population and for each of the four population subgroups income on a per capita basis and in aggregate for each quintile. The table should also show the number of persons represented in each cell in the table.

After carefully reviewing your testimony, we now know that the in-kind valuation methods used in your testimony, while similar in concept, are substantially different from those used by the Census Bureau. This causes me to wonder why all of the work done by the Census Bureau on in-kind valuation was disregarded and an entirely new approach used. What is even more disturbing to me is that qualitatively your analysis yields a different result than the Census Bureau. Specifically, the Census Bureau statistics indicate that the number of individuals in female-headed families who are poor grew between 1981 and 1983 and in absolute terms grew more under definitions of poverty which included in-kind benefits. How does your analysis, using exactly the same data base, reach a completely different answer? I also cannot understand how the after tax income of female-headed families in the lowest quintile decreased (in real terms) between 1981 and 1983 but when the value of in-kind benefits is added the per capita income increased in real terms.

As I understand it, my staff has met with your staff and the Census Bureau staff. At that meeting, the OMB and Census Bureau staffs agreed to try to determine what caused these differences. To our knowledge, no additional work to resolve the differences has taken place. If additional work is not going to be done, I would request that you provide the Subcommittee with the raw data on which your testimony was based. I will make the same request of the Census Bureau and will ask that one of our congressional agencies (the Congressional Research Service, the Congressional Budget Office or the General Accounting Office) explain the differences between the Census and OMB calculations.

Finally, Mr. Cogan's letter states that "conclusions about policy effects on income cannot be drawn" from the table he enclosed and, presumably, from the additional tables I have asked you to supply in this letter. However, as I understand it, these and similar tables were the basis for the written testimony you presented to us last year in which, as I recall, you drew a number of conclusions about policy effects. What conclusions can I draw from these tables? More accurate policy conclusions can be drawn from tables where the quintiles are fixed on the basis of post-policy subgroups separately. Then, if the distribution of total income and the various income components are examined between 1981 and 1983, one might learn the reason for the income changes. Please provide these data.

Your attention to this matter is greatly appreciated.

Sincerely,

HAROLD FORD, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, May 1, 1985.

HON. HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: I would like to respond to your letter of March 25, 1985, which follows up on my September 1984 testimony on poverty, by dealing first with questions you have raised and then discussing how your request for additional information might best be met.

In commenting on the fact that our valuation methodology is not identical to the Census Bureau's, you indicate you ". . . wonder why all of the work done by the Census Bureau on in-kind valuations was disregarded and an entirely new approach used." The work upon which all of the Bureau's publications are based was done in 1980–81; each of Census' publications emphasizes its "exploratory" nature. We did not disregard the Bureau's work but used it as a starting point for our own efforts, which began somewhat later than Census'. (Indeed, our Food Stamp valuations are identical to the Bureau's.) As we have explained to your staff, when our valuations differ it is because we use program data whenever possible or because we employ concepts which we believe are conceptually consistent with the current poverty measure. The following examples illustrate this point:

Census' housing values are based on data from the Annual Housing Survey, while ours are based on program data.

The Bureau's methodology assumes that 50 percent of families who report receiving free or reduced price lunches receive free lunches and 50 percent, reduced price lunches. Our methodology uses program information which shows, for example, that in 1983, 87 percent of subsidized lunches served were free while 13 percent were reduced price.

The Bureau uses different Medicare values for each State. Because Medicare is a nationally uniform program and the poverty level also is nationally uniform, we use national values for Medicare.

In calculating Medicaid insurance values, the Census Bureau includes expenditures for the medically needy in their calculations. We count only the expenditures for categorical eligibles, and assign the categoricals' insurance values to all persons who indicate they are eligible for Medicaid. We do so because we cannot capture the total insurance pool of people potentially eligible for medically needy coverage. By taking a conservative approach to valuation, we have avoided creating values which reflect the effects of adverse selection—the self-selection into the program by those eligibles with high medical expenditures.

We do not see our valuations as fixed in concrete nor, I believe, does the Census Bureau. Should better information become available on program participation and benefits, we would incorporate it into our work.

Your letter also expresses concern about differences between the results of Census' and OMB's valuations. You ask how our analysis reaches " . . . a completely different answer" than Census statistics which " . . . indicate that the number of female-headed families who are poor grew between 1981 and 1983 and in absolute terms grew more under definitions of poverty which included in-kind benefits."

As we have discussed with your staff, our definition of female-headed households and Census' vary. We do not include elderly-headed households in our female-headed household category while the Bureau does. Nevertheless, our tabulations do not yield a "completely different answer" from the Bureau's, as indicated in the chart below, which compares published Census data your staff gave mine with data provided in my letter of October 29, 1984.

PERSONS IN FEMALE-HEADED HOUSEHOLDS WHO ARE IN POVERTY

[Millions of persons]

	Census definition[1]				OMB definition[2]			
	1981	1983	Difference	Difference	1981	1983	Difference	Difference
Cash poverty	11.1	12.0	+.9	+8.1	11.6	12.6	+1.0	+8.6
Cash plus in-kind poverty	6.4	7.4	+1.0	+15.6	6.6	7.1	+.5	+7.6

[1] Persons in families with female householder, no husbank present.
[2] Persons in non-elderly female-headed families.

In fact, the Census and OMB results appear quite consistent given the differences in definitions and valuations, as well as the small sample sizes. (We previously have indicated that because sample sizes for female-headed households are small, the estimates for this population are inherently variable. My letter of October 29, 1984, includes a discussion of this point.)

In your letter you also indicate the following with regard to OMB's tabulations: "I cannot understand how the after-tax income of female-headed households in the lowest quintile decreased (in real terms) between 1981 and 1983 but when the value of in-kind benefits is added the per capita income increased in real terms." One reason this result could occur is because means-tested in-kind programs generally

have income disregards. As a consequence, means-tested benefits for a given beneficiary can more than offset losses in cash income from earnings and other sources.

In raising your final question, you write, "Finally, Mr. Cogan's letter states that 'conclusions about policy effects on income cannot be drawn' from the table he enclosed and, presumbly, from the additional tables I have asked you to supply in this letter. However, as I understand it, these and similar tables were the basis for the written testimony you presented to use last year in which, as I recall, you drew a number of conclusions about policy effects. What conclusions can I draw from these tables?"

I would make the following points in response to your question:

The quoted phrase from Mr. Cogan's letter is taken out of context. The full text makes it clear that Mr. Cogan was cautioning Mr. Primus against drawing conclusion with regard to precise dollar effects of policies because the OMB data understate both the net gain in incomes to low-income persons and the net reductions to high-income persons. Mr. Cogan includes an example to ensure the caution is understood. He notes, "One cannot conclude, for example, that the net effect of policy on the incomes of people in the lowest income quintile is $2,017 (the difference for 1983 between the 'post-policy' income of $2,187 and the 'pre-policy' income of $170)." The effect of policy is understated because many people who are in the lowest quintile when their pre-policy incomes are counted are moved into higher quintiles by cash and in-kind transfers. In our methodology, we did not sum up the increases in income accruing to people in the lowest quintile as they moved up in the income distribution. Such an analysis is the only way to measure the full impact of government policies on those in the lowest quintile. Rather, we did a new sorting of the population for each income definition. As a result, our estimates of the income redistribution effects of policy are conservative.

It is possible to draw the broad conclusions I drew in my testimony based on the tables we used to support the conclusions. My major conclusion, for example, was that the comparatively modest tax and transfer program reforms enacted under this Administration have not appreciably changed national income redistribution policies but that the ". . . poor are still being helped impressively and the rich are still helping to pay for the safety net on which the less fortunate depend."

Since I first testified on poverty before your subcommittee in 1983, your staff has shown an intense interest in getting the OMB tabulations disaggregated by type of income, e.g., earnings and self-employment income, other private money income, and so on. The request for additional tables in your letter mirrors earlier requests which we have indicated we cannot meet. We did not structure the computer runs we have on hand to provide data by specific income components because we doubt the value of such data. My October 29, 1984, letter includes a rather extensive discussion of why specific components of income taken from the CPS might be unreliable, particularly for small subgroups such as female-headed households. Given the unreliability of such estimates, we believe that conclusions that might be drawn from detailed income tables are likely to be invalid.

Because OMB is quite small and has a large range of resposibilities, our ability to undertake special efforts is very limited. We have tried to be especially responsive to your requests. However, at this point I believe your suggestion that you ask one of the Congressional agencies to undertake your research is the best approach to meeting your data needs. Your staff has been given a written description of the OMB valuation methodology, and we would be glad to provide your subcommittee and/or any of the agencies with the values we assigned to various benefits.

Sincerely,

DAVID A. STOCKMAN, *Director.*

JUNE 12, 1985.

Hon. DAVID A. STOCKMAN,
Director, Office of Management and Budget, Old Executive Office Building, Washington, DC.

DEAR MR. STOCKMAN: Thank you for your response of May 1, 1985 to my letter of March 25, 1985. While I disagree with some of your responses, I am in total agreement that the best way to proceed is to ask one of the congressional agencies to undertake research as to why OMB data differs from that of the Census Bureau. Accordingly, please transmit to me the computer tape containing the data upon which your analysis and testimony was based. This tape should contain the in-kind imputations which were made by OMB staff. Also, please enclose appropriate documentation so that the tape can be used by the congressional agencies.

Your attention to this matter is greatly appreciated.

Sincerely,

HAROLD FORD, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, July 9, 1985.

Hon. HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This letter is in response to yours of June 12, 1985, which indicates you plan to ask a Congressional agency to undertake research to determine why Census and OMB poverty measurements differ. In your letter, you request the OMB computer tape containing the data, including in-kind imputations, upon which my testimony on poverty before your Subcommittee was based.

The computer tape used as the basis for my testimony on September 20, 1984, is the March Current Population Survey (CPS) public use tape covering calendar year 1983. Because the Congressional research agencies work with the March CPS on a regular basis, they should have copies of this tape on hand.

The values that we used for in-kind benefits are provided in the enclosure to this letter. Also enclosed is a statement of the methodology used in assigning these values to recipients.

Given your interest in knowing how the OMB and Census valuations differ, it might be useful to share copies of our correspondence with the Congressional agency you ask to research the differences. In our responses to questions you have asked about my testimony, we have shared with you the information we have on differences in the two data sets. That information may be useful to the researchers when they begin their work.

Sincerely,

DAVID A. STOCKMAN, *Director.*

Enclosures.

TABLE 1.—*Values of inkind benefits, 1983*

Medicare:	
Less Than Age 65	$2,367
65 and Older	1,676
School lunch:	
Free	213
Reduced Price	147
Regular ("Paid")	37
Housing assistance (rental values):	
Public housing:	
Less Than Age 62	3,460
62 and Older	2,621
Rent subsidy:	
Less Than Age 62	4,192
62 and Older	3,319
Housing assistance (average disregards):	
Public housing:	
Less Than Age 62	1,536
62 and Older	684
Rent subsidy:	
Less Than Age 62	795
62 and Older	88

MEDICAID INSURANCE VALUES, FISCAL YEAR 1983 [1]

State	SSI	AFDC	
		Children	Adults
Alabama	$853	$342	$784
Alaska	7,308	661	1,128
Arizona	0	0	0
Arkansas	1,260	380	878
California	834	344	758

MEDICAID INSURANCE VALUES, FISCAL YEAR 1983 [1]—Continued

State	SSI	AFDC	
		Children	Adults
Colorado	2,726	358	785
Connecticut	1,557	478	1,001
Delaware	3,375	411	831
District of Columbia	5,518	479	1,166
Florida	1,217	318	703
Georgia	1,170	428	1,170
Hawaii	1,994	395	901
Idaho	964	377	839
Illinois	1,845	399	839
Indiana	4,104	473	1,266
Iowa	1,722	476	960
Kansas	2,608	486	1,035
Kentucky	984	298	776
Louisiana	1,488	399	925
Maine	1,594	368	897
Maryland	2,302	488	1,022
Massachusetts	1,927	569	1,070
Michigan	2,018	351	950
Minnesota	4,582	413	837
Mississippi	911	323	770
Missouri	1,005	430	770
Montana	2,159	381	1,076
Nebraska	1,417	369	766
Nevada	4,519	668	1,126
New Hampshire	3,353	484	869
New Jersey	1,662	704	1,311
New Mexico	1,077	294	525
New York	2,568	416	937
North Carolina	989	378	951
North Dakota	3,782	575	1,046
Ohio	2,957	489	1,099
Oklahoma	1,702	250	483
Oregon	2,471	317	880
Pennsylvania	2,652	311	646
Rhode Island	2,868	318	685
South Carolina	938	216	700
South Dakota	2,420	486	906
Tennessee	1,057	556	985
Texas	1,495	428	1,186
Utah	1,815	392	1,009
Vermont	2,127	365	765
Virginia	2,068	332	820
Washington	6,168	403	849
West Virginia	1,009	242	544
Wisconsin	1,875	491	949
Wyoming	2,547	485	1,165

[1] Values provided by HHS/HCFA, August 1984.

Chairman RANGEL. The next panel will be Dr. Marilyn Moon, senior research associate, Changing Domestic Priorities, the Urban Institute, and Dr. Lee Bawden, director, Human Resources Policy Center of the Urban Institute.

I thank the panelists for your patience in waiting. We are familiar with your work as well as your testimony. And without objection, your testimony will appear in the record, and we hope you are in a position to highlight it for us. And we are deeply appreciative of the time and effort that you put into it, Dr. Moon.

STATEMENT OF MARILYN MOON, SENIOR RESEARCH ASSOCIATE, CHANGING DOMESTIC PRIORITIES, THE URBAN INSTITUTE

Ms. MOON. Thank you, Mr. Chairman.

I am pleased to be here today to talk about the Urban Institute's recent work on the impacts of policy changes on the distribution of incomes.

My remarks today center on three major issues: changes in the distribution of income over the last 4 years; the reasons for these changes; and the potential distributional consequences of future reductions in benefit programs.

I will leave the specific discussion of the increase in poverty from 1982 to 1983 to my colleague, Lee Bawden.

Although many of the general findings I discuss also bear on this issue, much of the data and analysis I describe today stems from an ongoing project at the institute that is summarized in a book published this summer, "The Reagan Record."

Between 1980 and 1984, family incomes after taxes and adjusted for inflation will have shown an average increase of about 4 percent. Overall, families are better off financially, but by an amount that is quite modest by historical standards.

Moreover, averages conceal important differences in how families of various types and income levels have fared over the period. One useful way to examine these differences is to divide families into five groups of equal size, ranked from lowest to highest according to their incomes—the quintiles we have already heard discussed today.

Generally, shares of income received by each quintile change only very slowly over time. However, the 1980 to 1984 period has been marked by a larger than average change toward greater inequality in the distribution of family incomes.

The size of the pie has gotten larger overall, but just as importantly, the slices of the pie have also changed. Incomes in the highest quintile, for example, will have risen by about $3,260 over the last 4 years; $1,300 of this amount reflects the overall average growth in family income, while the remaining $1,960 represents a shift of resources away from lower income families.

Indeed, incomes to the bottom quintile will have declined by almost 8 percent, over $500, between 1980 and 1984.

Another way of looking at what has happened to people over the last 4 years is to consider various subgroups of the population. Again, it quickly becomes clear that overall averages mask many differences across such groups.

For example, the elderly as a group did quite well relative to others over the period. On the other hand, black families and female-headed families under the age of 65 at all income levels experienced a decline in their average real incomes. Whatever subgroups of families or individuals are considered, those at the lowest end of the distribution always fared worse than their counterparts in the higher quintiles.

I should point out that these findings indicate average effects for various groups. Individual families may gain or lose to greater or lesser degrees than indicated by the figures for their groups at large.

For example, while the elderly as a whole did quite well, to a considerable degree this result reflects the fact that each new wave of persons reaching the age of 65 tends to be better off than the last. Social Security benefits are higher, and they are more likely to have other income from pensions and assets.

In contrast, many individuals already over the age of 65 in 1980 would not have seen their incomes rise dramatically.

The Urban Institute study of family incomes was not designed specifically to answer the question of what share of an increase in poverty was attributable to particular factors, but it does provide some insights into the causes of these changes and the distribution of income.

Specifically, we attempted to discover how the distribution of incomes might have changed under a different set of general economic conditions and different Federal tax and expenditure policies. The answers show that overall the average growth in incomes would have looked very much the same as that which has occurred, but the mix of income changes across the various quintiles would have been quite different.

Incomes received by those at the bottom would still have fallen after adjustment for inflation, but only by about half as much, and instead of facing declining average incomes, the next 20 percent of the population would have shown modest increases.

These findings demonstrate that there are a number of important factors contributing to increasing inequality in the United States that would have occurred even under a different set of policies, but they also indicate that the policies of the last 4 years have exacerbated the trend toward greater inequality.

Higher unemployment selectively lowers the income of relatively few families, broadening the difference between workers not faced with layoffs and those who are. Although lower inflation may give individuals a greater sense of well-being, it does not necessarily have a dramatic positive impact on incomes.

During inflationary periods, wages as well as prices of goods and services tend to rise rapidly. Perhaps the largest gainers from lower inflation, though, have been the elderly, whose reliance on asset incomes and pensions make them more sensitive to rising prices.

On balance, however, the combination of higher unemployment and lower inflation between 1980 and 1984 led to increased income inequality. The Federal income tax cut of 1981 also contributed to this inequality, and because of its size, its impact is quite large.

Since it left unchanged the zero bracket amount, personal exemptions, and the earned income tax credit, parts of the tax system that are the most important to those at the bottom of the distribution, tax relief was much smaller for low income households.

If these provisions had been indexed to grow with inflation, the tax cut would have had a much more neutral distributional impact.

Finally, the AFDC and food stamp reductions that occurred over the period were too small to significantly affect overall average incomes in the United States, but for those in the lowest quintile, the cuts were significant and contributed to the drop in incomes that have occurred for those groups.

The legacy of the large Federal deficit is likely to mean additional major changes in tax and expenditure programs. So an important issue in the debate will undoubtedly be how the burden of tax increases or benefit reductions will be shared.

If the emphasis is placed on further reductions in means tested programs which have already been subjected to substantial cuts, the increase in inequality would almost certainly accelerate.

To achieve substantial savings from such means-tested programs, benefits received by those in the lowest income quintile will have to be cut. In contrast, the non-means tested programs are both larger in size and spread more evenly across families of different incomes.

Thus, various alternatives for reductions in these programs could be designed to achieve a more neutral sharing of the burden. However, since benefits of programs such as Social Security still make up a substantial share of the incomes to those in the bottom two quintiles, any benefit reductions would have to be carefully designed if they were intended to exempt low income families.

The issues I have discussed today illustrate that policies pursued by the Federal Government can have important effects on the distribution of incomes in the United States. To guard against unintended distributional consequences, major policy changes should be evaluated, not only for their potential budgetary savings, but for their impact on families and individuals in different income categories as well.

[The prepared statement follows:]

STATEMENT OF MARILYN MOON,[1] SENIOR RESEARCH ASSOCIATE, CHANGING DOMESTIC PRIORITIES, THE URBAN INSTITUTE

I am pleased to be here today to talk about The Urban Institute's recent work on the impacts of policy changes on the distribution of incomes. My remarks today will center on three major issues: changes in the distribution of income over the last four years, the reasons for these changes, and the potential distributional consequences of future reductions in benefit programs. I will leave the specific discussion of the increase in poverty from 1982 to 1983 to Lee Bawden, although many of the general findings I shall discuss also bear on this issue.

Much of the data and analysis I shall describe today stems from an ongoing project at the Institute to examine the important changes that have occurred in domestic policy in the last four years. The efforts of many researchers have been focused on this project and an overview of these results is contained in a book published this summer, The Reagan Record. In addition, our own findings are consistent with other studies which have recently been released, including, for example, work by the Congressional Research Service and the Congressional Budget Office. Briefly stated, our study found that although average incomes have risen, there has been a strong trend towards a less equal distribution of income over the past four years. While some of this greater inequality would have occurred anyway, the general economic conditions and specific Federal tax and expenditures policy changes have exacerbated the trend.

THE DISTRIBUTION OF INCOME AND POVERTY

Between 1980 and 1984, family incomes after taxes and adjusted for inflation will have shown an average increase of about 4 percent.[2] Overall, families are better off

[1] The views expressed here are solely those of the author and do not necessarily represent those of the Urban Institute or its Trustees.

[2] Our measure also includes the values of food stamp benefits. The 1984 figures are projections using The Urban Institute Household Income model.

financially, but by an amount that is quite modest by historical standards. For example, over a four year period in the 1960s, average growth would have been more than three times as great and even in the 1970s the average would have been over 5 percent.

Moreover, averages conceal important differences in how families of various types and income levels fared over the period. One useful way to examine these differences is to divide families into five groups (quintiles) of equal size ranked from lowest to highest according to their incomes. Generally, shares of income received by each quintile change only very slowly over time. However, the 1980 to 1984 period has been marked by a larger than average change toward greater inequality in the distribution of family incomes. The shares of income received by the lowest 60 percent of families (the bottom 3 quintiles) will have declined while that of the highest income group will have risen (see Table 1).

The size of the pie has gotten larger overall, but just as importantly, the slices of the pie have also changed. Incomes in the highest quintile will have risen by about $3,262 on average between 1980 and 1984—$1,302 of this amount reflects the overall average growth in family incomes, while the remaining $1,960 represents a shift of resources away from lower income families. Indeed, incomes going to the bottom quintile will ave declined by almost 8 percent—or $522—between 1980 and 1984. These results are displayed in Figure 1.

TABLE 1.—REAL DISPOSABLE INCOME BY QUINTILE, 1980 AND 1984

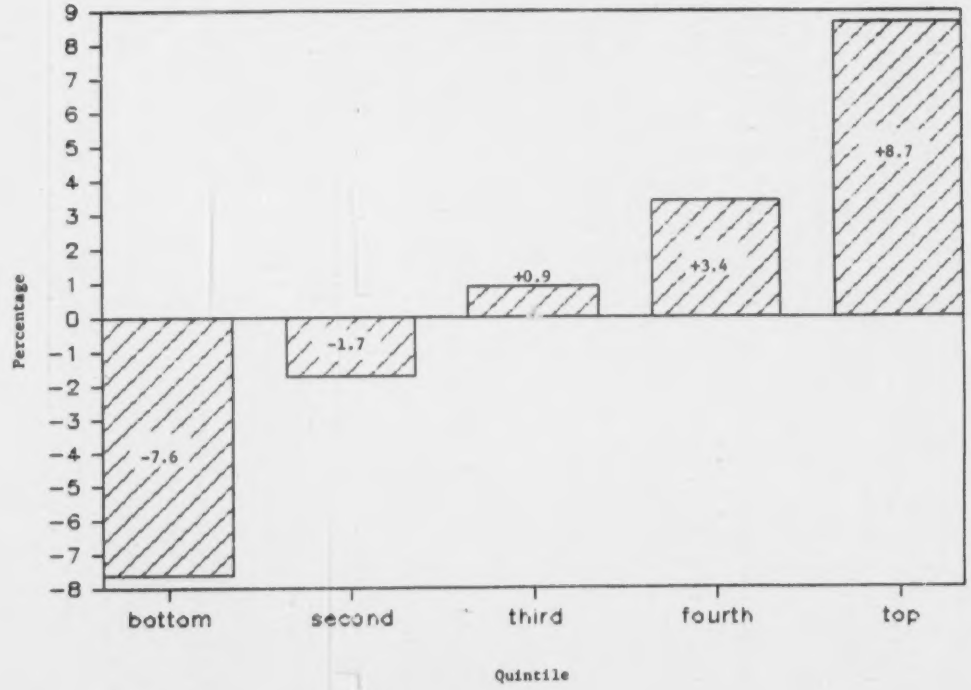
[1982 dollars]

Quintile	1980		1984	
	Average disposable income	Percentage share	Average disposable income	Percentage share
Bottom	6,913	6.8	6,391	6.1
Second	13,391	13.2	13,163	12.5
Third	18,857	18.5	19,034	18.1
Fourth	24,886	24.5	25,724	24.5
Top	37,618	37.0	40,880	38.9
All families	20,333	100.0	21,038	100.0

Source: Urban Institute household income model.

FIGURE 1

PERCENTAGE CHANGE IN REAL DISPOSABLE INCOME FOR FAMILIES, 1980-1984



SOURCE: Urban Institute household income model.

Another way of looking at what has happened to people over the last five years is to consider various subgroups of the population. Again, it quickly becomes clear that overall averages mask many differences across such groups. For example, the elderly as a group did quite well relative to others over the period. On the other hand, black families and female-headed families at all income levels experienced a decline in their average real incomes since 1980. Whatever subgroups of families or individuals are considered, those at the lowest end of the distribution (as ranked by 1980 income) always fared worse than their counterparts in the higher quintiles. (These results are shown in Table 2.)

TABLE 2.—PERCENTAGE CHANGE IN REAL DISPOSABLE INCOMES FOR FAMILIES AND UNRELATED INDIVIDUALS, 1980–84

[1982 dollars]

Demographic group	Quintile					All households
	Bottom	Second	Third	Fourth	Top	
FAMILIES						
Elderly:						
1980 average disposable income	5,771	9,801	13,680	19,021	33,548	16,363
Percentage change in disposable income, 1980–84	6.2	6.8	8.4	9.2	11.2	9.5
One-earner husband-wife (nonelderly):						
1980 average disposable income	8,764	15,126	19,791	25,593	39,182	21,688
Percentage change in disposable income, 1980–84	−10.5	−2.6	−0.5	1.1	8.6	2.1
Two-earner husband-wife (nonelderly):						
1980 average disposable income	11,030	18,064	22,871	28,165	39,851	24,010
Percentage change in disposable income, 1980–84	−6.7	−0.1	2.5	4.9	10.1	4.3
Female-headed (nonelderly):						
1980 average disposable income	3,946	7,378	10,158	14,618	25,032	12,223
Percentage change in disposable income, 1980–84	−12.0	−9.3	−4.8	−1.9	−0.2	−3.3
Black (all):						
1980 average disposable income	4,610	8,602	12,441	18,302	29,708	14,723
Percentage change in disposable income, 1980–84	−7.0	−8.2	−3.7	−0.6	−0.1	−2.1
UNRELATED INDIVIDUALS						
Elderly:						
1980 average disposable income	2,817	4,178	5,514	8,103	16,323	7,382
Percentage change in disposable income, 1980–84	5.9	9.2	11.2	13.5	19.6	14.9
Nonelderly:						
1980 average disposable income	2,220	6,142	9,386	13,179	21,145	10,414
Percentage change in disposable income, 1980–84	0.7	4.2	6.6	7.9	12.3	8.7

Source: Urban Institute household income model.

I should point out that these findings indicate average effects for various groups. Individual families may gain or lose to greater or lesser degrees than indicated by the figures for their groups at large. Indeed, the elderly are a particular case worth mentioning. While this group as a whole fared well, to a considerable degree the result reflects the fact that each new wave of persons reaching the age of 65 tends to be better off than the last: Social Security benefits are higher and they are more likely to have other income from pensions and assets. In contrast, individuals already over the age of 65 in 1980 may not have seen their income rise dramatically over the period.

The analysis described here incorporates a broad range of factors, some of which result in lower and some in higher family incomes. That is, we have not only looked at the consequences of high unemployment and cuts in federal programs, but we have also included increases in disposable income resulting from the federal income tax cut, and the benefits of the lower inflation that we now face. Moreover, our general conclusions do not depend critically upon the way in which income is measured.

Under different definitions of economic well-being, the magnitude of the absolute numbers vary, but the trends remain the same no matter whether we use before-tax or after-tax income, or income to which in-kind government benefits have been added.

Our results are consistent with other studies of income distribution and poverty including the recently released report by the Bureau of the Census showing an increase in poverty in 1983. According to that study, the poverty rate rose to 15.2 percent from a rate of 15.0 percent in 1982, even though average incomes increased during the year. This corresponds to our findings that incomes for some—especially those with low incomes—may decline substantially even when the average is rising. Moreover, the Census numbers show that the increases in poverty occurred among the nonelderly, again a finding in concert with our results, which show large declines in income in the bottom quintiles for female-headed and husband-wife families of working age.

IDENTIFYING THE CAUSES OF THESE INCOME CHANGES

The major causes of these changes can be divided into three general groups: underlying factors that would have led to greater inequality regardless of federal policy, the effects of general economic conditions, and the impact of specific expenditure and tax policy changes. I shall concentrate on these last two sets of causal factors.

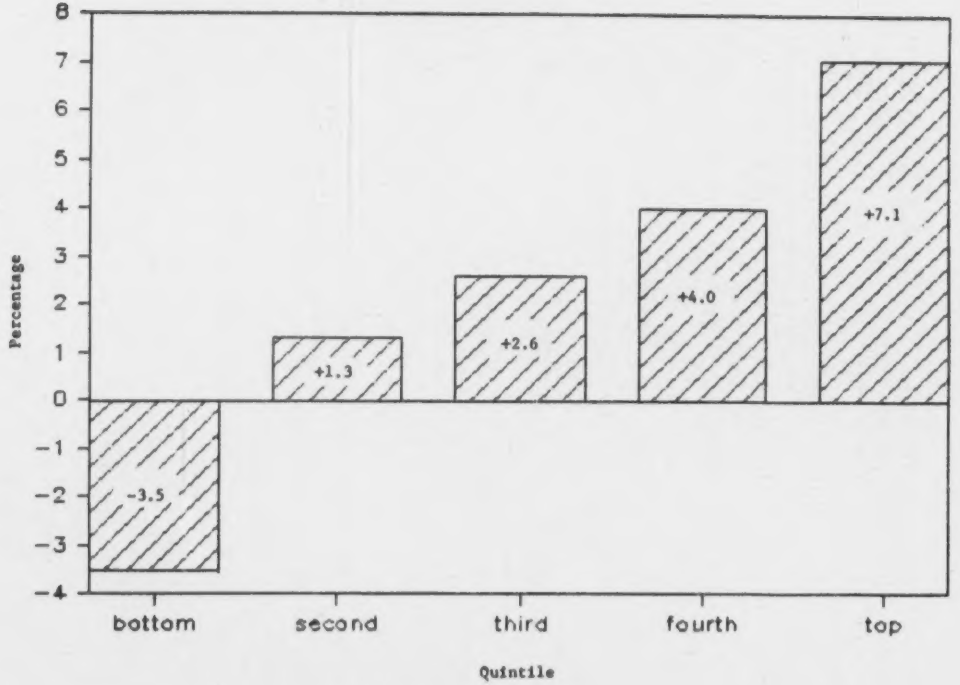
Certainly the high rates of unemployment associated with the recent recession pushed many into poverty and lowered their incomes relative to those who did not experience unemployment. For those at the bottom of the income distribution, the decline in the value of welfare benefits over the last four years has been crucial. Despite higher unemployment and lower real incomes for female-headed families in 1984 than in 1980, AFDC benefits will go to a smaller number of families, and within those families, average benefits (after adusting for inflation) will be lower. The income tax cuts of 1981 have increased after-tax income of wealthier families, but have had almost no impact on the after-tax incomes of the lowest 20 percent of all families. Although this will not contribute to a rise in poverty (since poverty measures are based on before-tax income), it certainly helps to explain some of the increase in disposable income inequality. But the question remains, how do we assess the magnitude of each of these factors?

The Urban Institute's study of family incomes was not designed specifically to answer the question of what share of any increase in poverty was attributable to particular factors; but it does provide some insights into the causes of changes in the distribution of income. Specifically, we attempted to discover how the distribution of incomes might have changed under a different set of general economic conditions and different federal tax and expenditure policies. That is, we asked "what if" we had traded a milder recession for slightly higher inflation, and "what if" the cut in taxes had been smaller and more neutrally distributed across the population, and no cuts in food stamps and AFDC had occurred.

The answers we received show that, overall, the average growth in incomes would have looked very much the same as that which has occurred. But, the mix of income changes across the various quintiles would have been quite different. Incomes received by those at the bottom would still have fallen after adjustment of inflation—but only by about half as much. And, instead of facing declining average income, the next 20 percent of families would have achieved modest increases. For those in the higher quintile, incomes would still have risen faster than for other groups, but not by as great a degree. These results are summarized in Figure 2 and can be compared with Figure 1 to see how the rates of growth would have varied between the two alternatives.

FIGURE 2

PERCENTAGE CHANGE IN REAL DISPOSABLE INCOME FOR FAMILIES UNDER AN ALTERNATIVE SCENARIO, 1980-1984



SOURCE: Urban Insitute household income model.

But these findings also indicate that, overall, the policies of the last four years have exacerbated the trend toward greater inequality. Higher unemployment selectively lowers the income of relatively few families, broadening the difference between workers not faced with layoffs and those who are. And although lower inflation may give individuals a greater sense of well-being, it does not necessarily have a dramatic positive impact on incomes; during inflationary periods, wages—as well as the prices of goods and services—tend to rise rapidly. Perhaps the largest gainers from lower inflation have been the elderly whose reliance on asset incomes and pensions (which are often not indexed for inflation) make them more sensitive to rising prices. On balance, the combination of higher unemployment and lower inflation between 1980 and 1984 led to increased income inequality.

The federal income tax cut of 1981 also contributed to an increase in the disparity of disposable incomes, and because of its size, its impact was quite large. Since it left unchanged the zero bracket amount, the personal exemptions, and the earned income tax credit--parts of the tax system that are most important to those at the bottom of the distribution—what the tax relief achieved was much smaller for low income households. If these provisions had been indexed to grow with inflation, the tax cut would have had a much more neutral distributional impact.

Finally, the AFDC and food stamp reductions that occurred between 1980 and 1984 were too small to significantly affect overall average incomes in the United States. But, for those in the lowest quintile, the cuts were significant and contributed to the drop in incomes that have occurred between 1980 and 1984. The importance of government programs to various income groups can be seen in Table 3 which shows how benefits are distributed across family income quintiles. Virtually all of the benefits of the AFDC and food stamp programs are targeted on the bottom two income quintiles.

TABLE 3.—DISTRIBUTION OF PROGRAM BENEFITS BY INCOME QUINTILES, 1984

[In percents and 1982 dollars]

Benefit program	Quintiles—						Average benefit per family
	Bottom	2d	3d	4th	Top	Total	
Means-tested programs:							
SSI	51.8	26.5	10.4	5.5	5.8	100	$84
AFDC	73.1	14.6	6.1	3.3	2.9	100	173
Food stamps	82.0	14.9	2.3	.6	.1	100	123
Medicaid [1]	56.5	22.4	10.3	5.8	5.0	100	338
Total means tested	64.3	19.8	7.9	4.3	3.7	100	718
Nonmeans-tested programs:							
Social Security	21.1	27.4	20.8	15.9	14.7	100	576
Unemployment insurance	12.5	24.4	24.7	21.4	17.0	100	241
Miscellaneous cash programs [1]	6.5	13.6	18.5	23.7	27.6	100	719
Medicare [1]	26.8	26.5	18.6	14.2	13.9	100	576
Total nonmeans tested	15.7	21.7	20.0	19.3	23.5	100	2,982

[1] This category includes government pensions, veterans benefits, workers' compensation, and general assistance.

Source: Urban Institute household income model.

THE DISTRIBUTIONAL IMPACTS OF FUTURE POLICY CHANGES

The legacy of a large federal deficit is likely to be additional major changes in tax and expenditures programs; an important issue in the debate will undoubtedly be how the burden of tax increases or benefit reductions should be shared. A number of factors (such as demographic changes) which in recent years have been moving the distribution of income toward more inequality are likely to continue, placing even more pressure on the distributional consequences of federal policy changes.

If the emphasis is placed on further reductions in means-tested programs—which have already been subjected to substantial cuts—the increase in inequality would almost certainly accelerate. To achieve substantial savings from these programs, benefits received by those in the lowest income quintile would have to be cut. In contrast, the non-means-tested programs are both larger in size and spread more evenly across families of different incomes (see Table 3). In fact, a greater than pro-

portional share of benefits from these programs go to those in the top quintile. Thus, various alternatives for reductions in these programs could be designed to achieve a more neutral sharing of the burden. However, since benefits from programs such as Social Security still make up a substantial share of the incomes of those in the bottom two quintiles, any benefit reductions would have to be carefully designed if they were intended to exempt low income families from further cuts. Increases in taxes could also be designed so as to spread the burdens across all groups or to direct them to higher income families.

CONCLUSIONS

The issues I have discussed today illustrate that policies pursued by the federal government can have important effects on the distribution of incomes in the United States. Even strategies that would result in the same average growth in incomes across all families can have quite different consequences for various subgroups of the population. To guard against unintended distributional consequences, major policy changes should be evaluated not only for their potential budgetary savings, but for their impact on families and individuals in different income categories as well.

Chairman FORD. Thank you.

And now, Dr. D. Lee Bawden, director of Human Resources Policy Center for the Urban Institute.

STATEMENT OF D. LEE BAWDEN, DIRECTOR, HUMAN RESOURCES POLICY CENTER, THE URBAN INSTITUTE

Mr. BAWDEN. Given the late hour, I will just briefly summarize my testimony.

Chairman FORD. Your entire testimony will be entered into the record.

Mr. BAWDEN. I look first at the reasons for change in the poverty rate from 1982 to 1983, when, in fact, we expected it to go the other way, with the economy improving. The puzzle is why. GNP was rising. Real incomes were rising. Unemployment was falling. Why did we have an increase in the poverty rate?

I look at three different possible causes, and conclude that all of them have contributed to it. A change in demographics itself has contributed to an increase in poverty because the number of female-headed households rose about 4 percent. Even if poverty rates had stayed the same for each family type from 1982 to 1983, we would have had a rise in poverty, because female-headed families have a higher poverty rate. So demographic changes did play a little part in that, but it does not explain the whole increase.

A second cause is the distribution of the unemployment itself. We see that the unemployment rate went down, but what we find is that the long-term unemployed increased dramatically. Those unemployed 26 weeks or more went up about 44 percent from 1982 to 1983. Those unemployed 52 weeks or more went up an astonishing 73 percent.

These are people that are running out of unemployment insurance or have run out a long time ago. They are people for whom there is little social safety net because many are intact two-parent families, and that has contributed to the increase in poverty—just the distribution of the unemployment.

A third faction is changes in policy. We have heard this afternoon that most of the budget cuts were made in 1981, most of the real changes in eligibility levels were made in 1981, and that there-

fore there was not much change in policies between 1982 and 1983 that would affect poverty. But that is not quite true.

Two examples. Some of the AFDC cuts, for example, the elimination of the $30 and a third, did not go into effect in any State until February 1, 1982, and in many States that was delayed. So the cuts in AFDC were larger in 1983 than they were in 1982. The second example is that some of the changes made in the unemployment insurance program did not come home to roost until 1983. For example the State triggers were raised in the extended benefits program, the national trigger was eliminated and States were required to pay interest to the Federal Government for their deficit, so they squeezed up on the regular State programs.

Now, we had a Federal supplemental program that boistered those programs, and in fact in 1983 we find payments per job loser just a little higher than in 1982. But in every recent recession we have always given some supplemental benefits. So the long-term unemployed might have received more benefits had the extended benefit program stayed the same and had the State UI programs not cut back.

I think this is another explanation for the increase in poverty that is policy-related.

Just a couple more comments. I think there is no question that the policies under this administration have substantially contributed to the increase in poverty since 1980. The excellent study by the Congressional Research Service is just one that shows that.

I was amused and heartened, I guess, to find that Mr. Stockman said that all the programs that we have passed in the last century have helped to reduce inequality, but we did not see a comparison of 1981 to 1983 in all of those wonderful programs.

The other comment is that we found and stated in the Reagan Record that there had been a marked reduction between 1980 and 1982 in the antipoverty effectiveness of cash transfer programs. You saw in table 7 of Mr. Stockman's testimony that that did not happen. How can those two be different?

We looked at the percent of poor that were lifted out of poverty by these various programs. Mr. Stockman looked at the number of poor that were raised out of these programs. So, I guess if you have 10 people poor and you raise 5 out, and if you have 100 people poor and you still raise 5 out, then the poverty effectiveness is the same, according to him.

I would say you ought to be raising the same percentage of people out of poverty, and when looked at that way, the antipoverty effectiveness of the programs has declined substantially.

One concluding comment. I think that sometimes in our discussions of looking at changes in poverty, which is very important, we sometimes lose sight of the magnitude of that poverty itself. When we have one out of six of our citizens poor, when we have one out of five of our children poor, when we have one out of three female-headed families poor, that is appalling.

Half of black female-headed families are poor, and nearly half of all black children are poor. Those figures to me are appalling in a nation as rich as ours. I think the cost of a free enterprise economy, which we all believe in, is just falling too heavily on too few shoulders. And I would urge both the Congress and the administra-

tion, in trying to solve the deficit crisis, to spare the poor further budget reductions, and to go even further than that—to take a look at some of the cuts that were made before—and that includes taxes as well—and try to rectify some of them. The burden is very heavy, and it is falling on too few shoulders.

Thank you.

[The prepared statement follows:]

STATEMENT OF D. LEE BAWDEN,[1] DIRECTOR, HUMAN RESOURCES POLICY CENTER, THE URBAN INSTITUTE

THE POVERTY PUZZLE: WHY THE 1983 RATES DID NOT FALL

I am pleased to testify on why the poverty rate rose from 1982 to 1983, despite a general improvement in the economy.

While the official poverty rate for the entire population increased from 15.0 percent in 1982 to 15.2 percent in 1983, it rose more for some groups and either rose less or declined for others. In particular, the rate of poverty increased more than the average for: Children under age 18, people living in the Midwest, families with four or more persons, and farm families.

In contrast, the poverty rate declined from 1982 to 1983, for: People of Spanish origin, persons over age 35—and especially those age 65 and over, persons in single-parent families headed by a minority female, and people living in the South.

My purpose in citing these different directions of change in poverty rates is not to explain them—for in most cases I cannot—but rather to remind us of two facts. One is that the consequences of changes in the economy or in government programs are not the same for all subgroups of the population, for a variety of reasons. The second is that the poverty statistics for small groups—such as people of Spanish origin—can change from year to year simply because of random error due to small sample sizes in the Current Population Survey. In fact, as the Census Bureau has pointed out, about one in ten surveys can yield a difference in the overall poverty rate of two-tenths of a percentage point—the rise from 1982 to 1983—simply by chance. But, of course, the flip side of this is that nine times out of ten a difference this large is real. So we can be pretty confident that the poverty rate did increase from 1982 to 1983.

The puzzling question is why. Since the Gross National Product and median family income rose between 1982 and 1983 and the unemployment rate fell, one would expect the rate of poverty to decline. The answer must be one or more of the following:

Demographic changes in the population caused the overall poverty rate to increase because those groups with a higher incidence of poverty made up a larger fraction of the population;

The economic recovery benefited the nonpoor more than it did the poor; or

Changes in transfer programs have either kept or pulled people into poverty at a rate that more than offset the natural lifting of people out of poverty because of the economic recovery.

I will address each of these three points in turn.

DEMOGRAPHICS

One possible reason that the poverty rate in 1983 rose instead of fell is that the demographics of the population changed so that, if each group's poverty rate had remained the same from 1982 to 1983, the overall average would have increased simply because the poorest groups made up a larger share of the population.

On the surface this possibility seems rather remote, since changes in the demographics of the population cannot be very large from one year to the next. However, Gottschalk and Danziger estimated that the poverty rate would have been 1.8 percentage points lower in 1982 if the population had the same demographic makeup in terms of sex of the household head, race, and age as in 1967.[2] This translates into

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[1] The views expressed here are solely those of the author and do not necessarily represent those of The Urban Institute, its Trustees, or its sponsors. Appreciation is expressed to Robert Crumpton, Jr., who prepared many of the statistics cited in this paper.

[2] Peter Gottschalk and Sheldon Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," in D. Lee Bawden, ed., The Social Contract Revisited: Aims and Outcomes of President Reagan's Social Welfare Policy (Washington, D.C.: The Urban Institute, 1984), p. 196.

an average demographically induced rise in the poverty rate of a little over one-tenth of a percent a year.

In fact, about three-fourths of the rise in the poverty rate from 1982 to 1983 can be explained by demographic changes in the population. The number of single-parent families headed by females increased over four percent from 1982 to 1983, while the number of the other family-types increased less than a half of a percent. If these family types had each had the same poverty rate in 1983 as in 1982, the overall poverty rate would have increased by 0.14 simply because the incidence of poverty among female-headed families is higher than that for other families.[3]

So much of the rise in the poverty rate from 1982 to 1983 is because of changes in family composition, but we are left with the perplexing question of why the overall poverty rate did not decline when the economy was recovering from the deep recession of 1981 and 1982.

THE ECONOMY

One important fact to consider is that, while real GNP (adjusted from inflation) rose over three precent from 1982 to 1983, the average unemployment rate in 1983 was one-tenth of a percentage point lower than in 1982—9.6 vs. 9.7 percent. And real median family income (adjusted for inflation) was only 1.6 percent higher in 1983 than in 1982. So, from the individual's point of view, the job market was scarcely any different in 1983 than in 1982. The major difference was that the economy was getting worse in 1982 and better in 1983; the outlook had changed from pessimistic to optimistic. With the unemployment rate in 1983 so near that in 1982, one should not expect a large decrease in the poverty rate. But there should have been some decline in poverty, yet there was none.

One reason is that the long-term unemployed increased substantially from 1982 to 1983, and they have a very high incidence of poverty. Workers unemployed 27 weeks more increased 44 percent between 1982 to 1983—from 1.8 to 2.6 million. And the number unemployed 52 weeks or more rose an astonishing 73 percent.[4] There is apparently some truth to the old adage that the first fired are the last hired, and this increase in the long-term unemployed could have increased the poverty rate in 1983 by over one-tenth of a percent.[5]

SOCIAL PROGRAMS

A possible third explanation of why the poverty rate did not fall in 1983 is because of the budget cuts in social programs.

There is now no doubt that the poverty rate in both 1982 and 1983 is higher because of the budget cuts in social programs. The Congressional Research Service, in a publication issued by both of the Subcommittees sponsoring this hearing, concluded that over one-fourth of the increase in poverty from 1980 to 1982 was due to reductions in transfer budgets embodied in the Omnibus Budget Reconciliation Act of 1981.[6] And John Palmer and I concluded in "The Reagan Record" that there has been a "marked reduction * * * between 1980 and 1982 in the antipoverty effectiveness of cash transfer programs * * * "[7] However, all of these studies made comparisons between 1979 or 1980 and 1982, not 1982 and 1983.

Most of the cuts in social programs were enacted in the Omnibus Budget Reconciliation Act of 1981; the Congress concurred in few of President Reagan's proposals to reduce either the level of eligibility or basic benefits in any of the income-conditioned programs after that. Thus, there was little change in benefit programs for low-income families between 1982 and 1983.

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[3] Unrelated individuals, whose poverty rate is also higher than the average, also grew in proportion to the population—which made the 1983 poverty rate higher. However, family size shrunk from 1982 to 1983, and since larger families have a higher incidence of poverty, this demographic change worked in the other direction and about offset the effect on poverty of the increase in unrelated individuals.

[4] Calculated from Bureau of Labor Statistics, U.S. Department of Labor, "Employment and Earnings," January 1983 and January 1984 (Washington, D.C.: U.S. Government Printing Office).

[5] The paper by Peter Gottschalk, submitted for this hearing, relates to this point by noting that a growing trend in earnings inequality contributed to the rise in poverty in 1983.

[6] U.S. Congress, House Committee on Ways and Means, "Effects of the Omnibus Reconciliation Act of 1981 (OBRA) Welfare Changes and the Recession on Poverty" 98th Congress, 2d Session, July 25, 1984, p x.

[7] D. Lee Bawden and John L. Palmer "Social Policy: Challenging the Walfare State" in John L. Palmer and Isabel V. Sawhill, eds. "The Reagan Record" (Washington, D.C.: The Urban Institute Press, 1984) p.19.

There are two exceptions to this general statement, however. One is that the now-renowned elimination of the "$30 and a third" disregard in the AFDC program after four months of work did not take effect in any state until February 1, 1982, and its implementation was delayed several months more in some states. Consequently, this change had a greater impact in 1983 than in 1982 and probably tended to increase the poverty rate in 1983—but by a very slight margin.

The other exception is that changes in the Unemployment Insurance (UI) and Extended Benefit (EB) programs, enacted in 1981, did not fully come home to roost until 1983—and they worked against a decline in the poverty rate that would normally have been expected in 1983 from a slightly more prosperous economy. Because of the higher state triggers enacted in 1981, the Extended Benefit program had "kicked out" in all but 12 states by January 1983, and by the end of 1983 no state qualified for extended benefits. At the same time, states were cutting back benefits in the regular UI program, in part because of the federal requirement to charge interest on loans made to states to cover past and curent deficits in their UI programs. In dollar terms, however, these reductions in benefits were more than offset by enactment of the Federal Supplemental Compensation (FSC) program, so that the total benefits (adjusted for inflation) per job loser from all three programs increased slightly from 1982 to 1983.[8] Nonetheless, benefits would have been larger with more payments to the long-term unemployed if the national EB trigger had not been eliminated and state triggers had not been raised. And since the poverty rate of the long-term unemployed (over 26 weeks) not reciving UI benefits exceeds 40 percent,[9] their larger numbers in 1983 coupled with the reductions in the regular UI and EB programs tended to keep the povertly rate high.

CONCLUDING COMMENTS

To summarize, then, all three of the reasons I postulated at the beginning of my talk contributed to a rising poverty rate in 1983. Increases in the number of female-headed families and in the number of long-term unemployed workers, and cutbacks in AFDC and in the UI and EB programs, all contributed to a higher poverty rate in 1983 than in 1982.

Moreover, several alternative measures of proverty calculated by the Census Bureau increased even more than the official rate. When the value of food and housing benefits for low-income families are included in income for both years, the poverty rate rises three- or four-tenths of a percentage point (depending on the valuation procedure used).[10] A measure based on after tax income would also increase more than the official rate because inflation, although it was low in 1983, still eroded the real value of deductions and exemptions, causing some of the poor to pay higher taxes. And the poverty gap—a measure of the income needed to bring all poor persons' incomes up to the poverty line—also increased more than the official poverty rate. So we not only had more poor persons in 1983, but they were also relatively worse off than in 1982.

I would like to conclude by noting that a focus on changes in poverty from one year to the next, while important, can divert our attention from the high absolute levels of poverty in both 1982 and 1983: Nearly one in six of our citizens were poor; over one in five children were poor; over one in three female-headed families were poor; more than half of black female-headed families were poor, and nearly half of all black children were poor.

These figures are appalling in a nation as rich as ours. The cost of having a free enterprise economy, which we all believe in, is simply falling too heavily on too few shoulders. In solving our looming budget crisis, I would urge both the Congress and the administration to make a special effort to spare the poor from further benefit reductions and, where possible, to correct some of the actions taken in the past three years that have contributed to the current, frightfully high incidence of poverty in the nation.

Chairman FORD. Thank you very much.
Mr. Matsui.

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[8] Gary Burtless, "The Program Effectiveness of Unemployment Insurance During the Recent Recession," Testimony before the House Ways and Means Committee, September 12, 1984.

[9] The poverty rate of those unemployed over 26 weeks in a 52 week period has been estimated at 41 percent for 1982. See U.S. Committee on Ways and Means, "Background Material on Poverty" Committee Print, 98th Congress, 1st Session, Oct. 17, 1983, p. 106. Comparable figures are not available for 1983.

[10] U.S. Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1983," Technical Paper 52, August 1983, p. xiii.

Mr. MATSUI. Thank you very much.

I appreciate the testimony, Dr. Moon and Dr. Bawden.

I would like to ask either of you to take a look at table 1 that Mr. Stockman presented to us today. It sounds to me, and I think, Dr. Bawden, that you referred to this, Mr. Stockman is basically talking about all of the Federal programs that have come into existence since the beginning of this Republic, and saying, look at how beneficial this country has been to the poor people. It reminded me of the allowance that I give to my son. If I have $1,000, and he has a nickel, and I give him a dime, well, he ends up looking pretty wealthy.

It appears to me that this phenomenon is what this table exemplifes. Could you describe this table, as an expert in the area of poverty, and tell me whether it, in your opinion, has any real value to decisionmakers in analyzing what we should do in the year 1985 on behalf of the poor?

Mr. BAWDEN. To me it does not have a lot. It is nice to stop once in a while and take a snapshot of our entire history, but it does not tell us where we have been going in the last 2 or 3 or 4 years, and it does not tell me where we ought to go in the next 2 or 3 or 4.

Mr. MATSUI. Thank you.

On table 7, which I referred to in my discussion with Mr. Stockman, on his second line he talks about the impact of cash transfers in reducing poverty.

According to your analysis, in the "Reagan Record," published by the Urban Institute, if we continued the Federal programs prior to the Reagan administration cuts that impact the poor, would we have an increase of 20.5 million people who would have been taken off the poverty rolls in 1983?

Mr. BAWDEN. Yes.

Mr. MATSUI. Mr. Stockman in his testimony said it would have been insignificant, although he has not done a statistical runout on it. Could you tell me whether it would be statistically significant or insignificant? Could you give me an idea of how many people would have been lifted out of poverty had we not changed these programs?

Mr. BAWDEN. In 1980, cash programs alone pulled 44 percent of the poor out of poverty. In 1982, 38 percent. I think from 44 to 38 percent is significant. We do not have the same comparable figures for 1980 on in-kind programs, but we compared 1976 to 1982, and in-kind programs pulled up 10-percent less people than before. Those are the effects of the program changes.

Mr. MATSUI. So you would be saying then basically that on his line 2 of this table 7 under 1983 the number would be larger if we had not change these programs that the Reagan administration promoted in 1981, 1982, and 1983?

Mr. BAWDEN. That is true, and the numbers would be smaller if you look at the percent of the poor that are raised out of poverty instead of absolute numbers.

Mr. MATSUI. Thank you. And then on table 10, on page 19, in this table here we have the year 1959 to 1973 and then we skip over to 1982-83. I think you may have answered this in your opening comments, both Dr. Moon and Dr. Bawden, in the sense that the effective dates of the changes in some of these programs varied,

but there were approximately $16 billion worth of rescissions in 1981 that were recommended by the administration. The administration received approval of 90 percent of them or approximately $14.5 billion, and of course none of those rescissions were in the area of defense. It was all in domestic programs.

Would there have been a significance in putting 1980 and 1981 in this table?

Mr. BAWDEN. I am sure there would have been, but there are a couple of other significant things about the table. One is, you do not see cash benefits there. You see total benefits, and then you see noncash. If you subtract the two, you will see a decline in cash benefits. The other question is, Why did the means tested rise when we think that they should have fallen because of the program changes?

Well, in one sense, the cost of programs are intended to rise if you are in a recession as deep as we are. Marilyn has another reason on why those benefits rose.

Ms. MOON. The growth of the in-kind benefits are dominating the very large increases in medical transfers. And much of this growth reflects high rates of price increases in medical care rather than increases in services.

Mr. MATSUI. I see. Thank you. That is a very significant point. I wish I would have known to ask Mr. Stockman that. In other words, these increases in figures do not necessarily reflect additional benefits to recipients. They could reflect price increases in the area of medical treatment, which has been double the traditional rate of inflation, and so it does not get to the people with which we as decisionmakers are concerned.

Ms. MOON. That is right.

Mr. MATSUI. I know time is growing short, and I would just like to commend both of you for your testimony, and of course the Urban Institute for its very fine job on putting together the analysis of the Reagan administration's last 3½ years. I do not have any more questions, but I do want to commend you, and I only wish that the national media would have given the same kind of attention to this kind of report as we often do to the administration's comments.

I am sorry that you were so late, because I frankly feel your testimony should have been at the beginning of the hearing, so that your comments would have been disseminated as Mr. Stockman's, but thank you very much.

Chairman FORD. The Chair would like to ask the panel, what would be your recommendation to the committee as it relates to this committee responding to the high levels of poverty rate? How can we reduce those poverty rates? Do you have a recommendation for the committee?

Mr. BAWDEN. Well, I think that there is not a good understanding of why people go into poverty. And there is not, in my way of thinking, a lot of concern about preventing poverty by this administration. One thing is to prevent it before it happens, another thing is to try to cure it when it happens.

We know that a large number of the poor are young kids who are having babies out of wedlock, yet this administration seems not to be very excited about looking at what is effective in sex educa-

tion programs or in counseling adolescents, both pregnant and parenting adolescents, about the consequences of having another child.

We know that discrimination is a cause of poverty, and from all of the evidence we have seen, which was reported in the Reagan Record, there has been a great pullback in this administration in the enforcement of the laws that could have been enforced in terms of antidiscrimination.

I commend the administration on tougher child support enforcement laws. I think when you are in high school and your friend in high school is paying child support payments already, that might make young males think again about the responsibilities that they have.

So, I commend the administration there. But I would also give attention to the areas of family planning, family counseling, the kind of services to help prevent long-term poverty. The long-term poor have the biggest problems. My advice would be to turn my attention to them, and to also consider one other thing.

And that is, much of the research on training programs, the old CETA program showed that the program was most effective for and the most disadvantaged women got the greatest impact from the program. We now have a new program the Job Training Partnership Act, that benefits the low-income people. It takes those who are most employable.

The administration says its primary objective is to place those people in jobs. The faster you can get them jobs, the better. Whereas we find that the best investment of the dollars are in the most disadvantaged.

That is something else I would look at.

Ms. MOON. I would just like to add that I think it is important to consider the increase in tax liabilities which has already been mentioned, on low-income families, and particularly working families. These burdens exacerbate the problems facing the working poor—who have been increasing in numbers in recent years. Those high taxes could be lowered, I think, by taking a look at personal exemptions and the zero bracket amount.

These provisions have not been changed in recent years. An increase in them would help prevent low-income people from incurring income tax liabilities, and I think that is a policy change that could aid that category of families as well.

Chairman FORD. Thank you very much. I think that that will end the committee hearings today. I would like to say, Dr. Bawden, that it was not only the support by the Reagan administration on child support enforcement that the Public Assistance and Unemployment Compensation on the majority side of this Ways and Means Committee worked tirelessly in bringing that bill to the House floor, and for the final passage of that bill. I certainly would not want to credit the administration with the legislation being passed and implemented, though we were very supportive—plenty of support, and strong support, came from the White House, and the White House did sign the bill into law. But we do not want to give all the credit to the White House at all.

Again, I would like to thank the panel for appearing here today. This will conclude the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation

Committee on Ways and Means hearing on the poverty rate increase for 1983.

Thank you.

The committee is adjourned.

[Whereupon, at 5:05 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE FEDERAL PARTY, UNITED STATES OF AMERICA, ALLAN COSSENTINE, TEMPORARY SECRETARY GENERAL

The Federal Party of the United States of America has submitted to the various subcommittees of the Committee on Ways and Means, materials outlining a plan for revising such trends as the poverty rate increase for 1983.

Poverty rates will increase constantly with the increase in the public debt for costs, rises in interest rates, and principal liabilities.

The Federal Party of the United States of America has made representations to this Committee before on the subject of how we might alleviate these conditions. These have appeared in the various records into which they were inserted. Naturally, it is understandable that few if anybody reads the Record once it is published. We, therefore, wish to point out to you that there will be no letup in poverty rate increases until the interest-bearing bonds of the United States are monetized for their accumulated values so that the Government will have no further obligation to pay interest on the debt. This would make an immediate 1.6 trillion dollars available for lending to the private sector. This would cause an immediate drop in interest rates to a point between 2½ and 3 per cent prime interest.

If all the corporations of this country can again obtain prime loans for 2½ per cent, or thereabouts, the resultant surge in activities would so reduce unemployment that the government could realize an extra 100 billion dollars a year in income. This, coupled with a savings of 175 billion dollars in interest for 1985, would result in a probable surplus of 100 billion dollars, or better, if no further reduction in the national budget were made (and believe us, we are in favor of reducing the budget).

Hearings do not rightly have to be held to determine the causes of poverty rate increases. What is needed is action on a monetization of Government bonds so that organizations can proceed to hire more people.

As it is right now, the interest structure resulting from the government paying interest on its debt (when the Constitution has not authorized Congress to do so) has produced an unfortunate situation on which people may not find jobs in this country unless they have high-tech training to offer to a white-collar economy that is not actually producing goods, but only services which may or may not be entirely necessary.

We point out with alarm to another effect of this interest structure:—that of destabilizing our banking system. Many American banks are involved with unstable countries whose governments have issued bonds and are not able to repay interest, to say nothing of principal.

The Federal Party advocates also that these governments be directed to also monetize their bonds so that the monetizing of their debts could be used as currency to make loans to the private sector within their own borders. With private industries borrowing this money, there could be an eventual return of these investments—much better than depending upon volatile governments.

We are not suggesting the abrogations of any obligations owned by our government, or other governments. We are merely re-directing the source of interest, and also the destination of money that should be lent to private industry, and not to the Government. Let the Government keep within its budgetary bounds, and if this is impossible, let Congress then coin the money itself. But not pay somebody interest upon it. This is a perverted diversion of the peoples' resources. And the danger is that in the near future it may create instant poverty for everyone. With a 100 billion dollar surplus we could set Social Security back on the track as far as reliable funding goes, and have enough left over to fill all the pot holes in the country beside, as well as repair other features of our decaying infra-structure.

I thank you again for your kind attention and courteous reception of our representation to you.

STATEMENT OF PETER GOTTSCHALK,[1] BROOKINGS INSTITUTION

I thank the Committee for the opportunity to update my previous testimony of October 18, 1983 in light of the recent rise in poverty from 15.0 percent to 15.2 percent.[2] In this report I will address three questions: (1) Why did poverty not decline as a result of the improved economic conditions in 1983? (2) What were the underlying changes which led poverty to increase by 3.4 points over the last five years? (3) Will the current recovery bring poverty rates back to the 11 and 12 percent levels they achieved during the 1968 to 1978 period?

CAUSES OF RISE IN POVERTY IN 1983

The testimony at the fall hearings showed that there was disagreement about the magnitude of the expected drop in poverty. However, there was a broad consensus that poverty would decline as a result of improved economic conditions. It was expected that the substantial rise in GNP, the small drop in unemployment rates (from 9.7 to 9.6 percent), and the continued increase in real cash transfers [3] would all contribute to a reduction in poverty. The drop did not materialize. Instead poverty continued its upward trend which had started in 1979.

Two factors kept poverty rates from declining. First, the fruits of the recovery were distributed less evenly than in previous recoveries. While average incomes rose substantially, all households did not benefit equally from the economic expansion. To put it in popular terms, there was a rising tide but it did not lift all boats equally.

The figures in Table 1 show that households at the bottom of the income distribution did not keep up with the average household. Rows 1 and 2 show the actual poverty rates for four demographic groups and for or all persons in 1982 and 1983. Row 3 shows estimates of the poverty rates which would have occurred if the fruits of the recovery had been distributed as in previous recoveries. Comparing rows 1 and 2 shows that the actual poverty rates for female headed households decreased between 1982 and 1983 while poverty rates for households with a male present increased for Blacks and stayed constant for whites.

Comparing rows 2 and 3 shows that if the 1983 recovery had been a typical recovery, the poverty rates for each of the groups would have dropped. For example, based on economic conditions alone, we would have expected poverty rates for households with a white male head to drop to 8.2 percent and the rates for white females to drop to 27.1 percent. Instead, the actual rates for white males remained at 8.7 and the rates for white females only dropped to 28.4 percent. The last column shows that if this had been a typical recovery the overall poverty rate would have fallen to 14.4 percent, instead of rising to 15.2 percent.

The second factor tending to increase poverty was the changing demographic composition of households. The increased proportion of households headed by females raised the overall poverty rate since they had above average poverty rates. In order to determine the relative importance of changing demographic composition I calculated the proportion of households which would have been poor if the makeup of the population (based on six race and sex categories) had been the same in 1983 as in 1982. I estimate that the overall poverty rate was 0.1 point higher because of demographic shifts.

CAUSES OF INCREASE IN POVERTY OVER THE LAST 5 YEARS

Table 2 shows the basic time series on economic conditions and poverty. It shows that poverty rates dropped to 12.1 percent in 1969 and remained in the 11 to 12 percent range for over a decade. By the mid-1970's analysts were asking why poverty had gotten stuck in the 11 to 12 percent range rather than continuing its mid-

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[1] Visiting Fellow at the Brookings Institution and Project Associate at the Institute for Research on Poverty, University of Wisconsin, Madison. Sheldon Danziger offered useful comments on an earlier draft of this testimony.

[2] Throughout this report I use the Current Population Survey measure of poverty, which does not include the value of in-kind transfers. The cash only measure is used since part of this report is based on regression analysis which requires longer time series than is available for the adjusted series. The recent increase in poverty is even larger when the value of inkind transfers are included in income.

[3] Two factors were primarily responsible for the increase in real cash transfers between fiscal year 1982 and fiscal year 1983. First, the real value of Social Security payments increased because the cost of living adjustment was based on the inflation rate between the first quarter of 1981 and the first quarter of 1982, a period of rapid inflation. Second, a Federal supplemental compensation program was included in the fiscal year 1983 appropriations.

1960's decline. Small increases, even into the 12 percent range, as occurred during the 1975 recession, were a cause for alarm.

Poverty rates declined during the first two years of the Carter Administration. They then increased from 11.8 percent to 13.0 percent during the second half of his administration. Poverty continued to increase during the first three years of the Reagan administration, reaching 15.2 percent by 1983.[4] Not only is the total five year increase of 3.4 points large by historical standards but the repeated increases in poverty is unprecedented. The longest previous period of increased poverty was only two years (1973 to 1975).

Table 3 shows that the increase in poverty during both the Carter and Reagan administrations is again more a result of changes in the distribution of income than a result of reduced economic growth. Changes in how the economic pie was shared, rather than the size of the average slice, was the primary cause of the five year increase in poverty. If the poor had experienced the same percentage change in market incomes as the average American, poverty would have increased by only .2 points during the Carter Administration and poverty would have remained unchanged during the Reagan administration. Likewise if low income people had received the average increases in transfers, poverty would have decreased by .1 and .2 points in the two administrations respectively. The net effect would have been a poverty rate of 11.7 in 1983.

But market incomes and transfer incomes did not grow at the same rate for everyone. The poor and near poor experienced larger declines (or smaller increases) in income than the non-poor. The result was an increase in inequality. Table 3 shows that increases in inequality account for a 1.1 point increase in poverty during the four years of the Carter administration and an even larger (2.0) point increase during the first three years of the Reagan administration.

This confirms the view presented in my previous testimony that the distribution of economic growth and transfers can have a very large impact on poverty. Sustained economic growth equally shared by all will help the poor, as illustrated by the experience of the late 1960's and early 1970's. Growth which results primarily in increased income of those higher on the income scale will have very little effect on the poor.

PROJECTIONS OF POVERTY

The experience of the last several years sheds considerable doubt on the proposition that economic growth will bring poverty rates back into the 11 to 12 percent range achieved during the late 1960's and early 1970's. This is confirmed in Table 4, which shows actual poverty rates for selected years between 1967 and 1983 and projected poverty rates for 1984 through 1986 for all persons and for six demographic groups. Projections are based on the August 1984 CBO economic assumptions.

The poverty rate for all persons is expected to decline by .8 points to 14.4 in 1984. Even with continued economic growth, poverty is only projected to drop to 13.6 percent by 1986. This would leave us with poverty rates above their 1968 values in spite of three years of sustained economic growth and the resulting historically high level of GNP per capita. Poverty rates for Black female headed households would remain in the 55 percent range. I conclude that if our goal is just to stay even with our achievements of fifteen years ago we will have to rely on more than economic growth.

In conclusion, a fairly clear picture is emerging. Economic growth has the potential for reducing poverty. What happens in practice depends on how that growth is distributed. The experience of the last few years shows that growth alone is not a sufficient policy. The gap between rich and poor can widen even when there is economic growth.

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[4] When food, housing and medical care are counted at recipient value, adjusted poverty rates increased from 9.0 to 13.0 percent between 1979 and 1983. This 4 point increase is even larger than the 3.4 point increase in the cash only measure of poverty.

TABLE 1.—ACTUAL AND EXPECTED POVERTY RATES IN 1983 (OFFICIAL MEASURE) BY DEMOGRAPHIC GROUPS

	White		Black		Total
	Male	Female	Male	Female	
Actual:					
1982	8.7	28.7	20.0	57.4	15.0
1983	8.7	28.4	20.4	56.1	15.2
Simulated [1]	8.2	27.1	18.7	55.0	14.4

[1] Simulated 1983 rates are based on regressions estimated through 1982 and projected using actual 1983 values of independent variables (unemployment rate, real GNP per household and real cash transfers per household).

TABLE 2.—TIME SERIES ON MACROECONOMIC CONDITIONS, INCOME TRANSFERS AND POVERTY, SELECTED YEARS 1950–81

Year	Real GNP per household (1972 dollars)	Unemployment rate (percent)	Real cash transfers per household [1] (1972 dollars)	Official incidence of poverty (percent)
	(1)	(2)	(3)	(4)
1950	$10,880	5.3	$365	N.A.
1955	12,490	4.4	460	N.A.
1960	13,060	5.5	664	20.2
1961	13,170	6.7	730	21.9
1962	13,810	5.5	770	21.0
1963	14,200	5.7	791	19.5
1964	14,630	5.2	801	19.0
1965	15,350	4.5	816	17.3
1966	16,010	3.8	878	15.7
1967	16,020	3.8	891	14.3
1968	16,390	3.6	911	12.8
1969	16,470	3.5	958	12.1
1970	16,080	4.9	1,010	12.6
1971	16,170	5.9	1,150	12.5
1972	16,710	5.6	1,225	11.9
1973	17,160	4.9	1,272	11.1
1974	16,700	5.6	1,263	11.2
1975	16,100	8.5	1,395	12.3
1976	16,610	7.7	1,513	11.8
1977	17,010	7.1	1,508	11.6
1978	17,450	6.1	1,488	11.4
1979	17,430	5.8	1,410	11.7
1980	17,030	7.1	1,424	13.0
1981	17,230	7.6	1,473	14.0
1982	16,760	9.7	1,522	15.0
1983	16,940	9.6	1,601	15.2

[1] Transfers are divided by all households, not by recipient households.
NA = not available.

Sources: For GNP, Consumer Prices Index, and unemployment rate, "1984 Economic Report of the President"; for cash transfers, "Social Welfare Expenditures Under Public Programs in the U.S., "Social Security Bulletin, December 1968, December 1972, January 1971, January 1977, November 1981 and Budget of the U.S. Government, Fiscal Year, 1985; for official poverty incidence and number of households, Current Population Reports, series P–60, "Consumer Income."

TABLE 3.—DECOMPOSITION OF CHANGES IN POVERTY RATES

Household head	Actual percentage point change in poverty	Percentage point change in poverty associated with change in—		
		Mean market income	Mean transfer income	All other factors
	(1)	(2)	(3)	(4)
All persons:				
1976–80	1.2	0.2	—0.1	1.1
1980–83	2.2	.0	—.2	2.0

Note.—The sum of the changes in columns, 2, 3, and 4 is equal to the change shown in column 1.
Source: Computations described in Gottschalk and Danzier (1983).

TABLE 4.—ACTUAL POVERTY RATES AND PROJECTED POVERTY RATES (OFFICIAL MEASURE) BASED ON CBO ECONOMIC ASSUMPTIONS AND PROPOSED LEGISLATION

	All persons	Percent of persons with income below the poverty line who live in households where head is—					
		White		Black		Hispanic	
		Male	Female	Male	Female	Male	Female
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actual:							
1967	14.2	8.1	33.9	30.0	61.6	N.A.	N.A.
1970	12.6	6.8	31.4	21.7	58.8	N.A.	N.A.
1975	12.3	6.6	28.1	18.2	53.6	20.1	55.6
1979	11.7	5.9	24.9	16.2	52.2	15.5	48.9
1980	13.0	6.9	27.1	17.9	53.1	18.5	52.5
1981	14.0	7.6	28.4	19.4	55.8	18.6	54.0
1982	15.0	8.7	28.7	20.0	57.4	22.0	57.4
1983	15.2	8.7	28.4	20.9	56.1	21.1	54.3
Projections:							
1984	14.4	7.6	26.8	21.2	55.9	29.2	50.2
1985	13.7	7.0	26.0	20.0	54.9	20.2	48.4
1986	13.6	6.8	25.4	20.8	55.3	20.2	47.3

Note.—The projections of poverty are based on the August 1984 CBO economic assumptions for 1984 through 1985 (growth in real GNP of 7.3, 3.6, and 3.1 percent; unemployment rates of 7.3, 6.7, and 6.6), the budget projections for transfer programs found in the fiscal year 1985 Budget (growth in real cash transfers of —4.0, 4.8, 2.0); and the U.S. Bureau of the Census demographic projections. Actual data from Current Population Reports, P–60 Series, No. 140.

STATEMENT OF THE INTERCHANGE RESOURCE CENTER, KATHRYN WARACKS, DIRECTOR OF SENIOR'S ACTION ON OMB

My name is Kathryn Waracks and I am Director of Senior's Action on OMB, a campaign to inform and mobilize Senior Citizens regarding the prospective effects of the redefinition of income. Senior's Action on OMB is a project of the Interchange Resource Center in Washington, D.C.

A wise person once said that, "The best measure of a civilization is the state of its' most vulnerable." Over the past few decades, we have made great strides in the U.S. to ensure dignity and support for our Senior Citizens. However, all of this is being threatened by bureaucratic manipulations of the U.S. Office of Management and Budget.

In the District of Columbia, many seniors have found that the Social Security they have relied upon for their livelihood is not enough. This is especially true for those who have been historically excluded from well-paying jobs through racism and sexism. For example, in D.C., over half of the black women 65 and older are below the poverty line, with a median income of only $3,585.[1] But there are senior citizens

[1] Souce: D.C. Office of Planning and Development.

of every race and of both sexes who are poor. Many of these poor seniors rely on Medicare Insurance—a contract that they have already purchased—to pay for their medical bills. For some people, Medicaid, Supplemental Security Income (SSI), and Food Stamps are also needed to fill the gap between their Social Security benefits and the cost of the bare necessities.

The Office of Management and Budget directed the U.S. Bureau of the Census to recompute poor people's incomes by adding in the noncash benefits they receive, such as; Medicare/Medicaid, Food Stamps,[2] and subsidized housing. This idea is not new, but the present administration has already developed several formulas for adding these noncash benefits into people's incomes as "cash income". By doing this not only do the number of poor senior citizens appear to be drastically reduced, but if the new incomes are used to determine program eligibility, many seniors will lose the benefits they desperately need.

These formulas for redefining poverty out of existence are presently being used as research tools to gather data towards a possible redefinition of income[3] however as Mollie Orshansky, who originated the poverty guidelines in 1964, said to me recently, "research tools can become a 'thing', a 'line drawn in the dirt', like the poverty line did. That was developed as a research tool to assess the amount of need, but it become the official definition of poverty." Orshansky also said that "if the poverty income changes are made, we won't even know how much need we're not meeting".

This redefinition of income would particularly discriminate against the elderly, because most senior citizens are already receiving one in-kind benefit, Medicare, but its' younger counterpart employee-paid health insurance, is not considered in the Census data.

The administration has not yet tipped its' hand about the use of the imputed income, but once changes are put into effect, however it is done, it will be very hard to change, and could be disastrous for seniors, in the District of Columbia and elsewhere.

I spoke recently with a caseworker in D.C. who coordinates benefits for District Senior Citizens. This caseworker gave me anonymous, detailed profiles of several people whose circumstances I've analyzed in terms of one of the redefinition formulas. I have used a conservative estimate, using the "market value" [4] method for counting noncash benefits and have taken the lower figure for Medicare/Medicaid—the figure which does not include the estimated costs of institutionalized care.

In the District of Columbia, there is an 84-year-old white woman I'll call "Mrs. A." Mrs. A is a widow who shares a small rat-infested apartment with a handicapped contemporary and who has no family in the area. Her monthly income is $339.00 from Social Security and Supplemental Security Income. She spends $110 of this on rent, not including her utilities and telephone costs. Mrs. A receives Food Stamps and home delivered meals. She is a diabetic with chronic respiratory problems and arthritis. Mrs. A also needs a lot of medication not covered by her Medicare and Medicaid.

Right now, Mrs. A is below the poverty line. If her Medicare, Medicaid and Food Stamps were counted as cash income, she would no longer be "statistically poor", and Mrs. A would lose her Supplemental Security Income, Food Stamps, and become categorically ineligible for Medicaid. After losing her benefits, Mrs. A would be once again "poor"—and could reapply for Food Stamps; but if she received them the "cash income" value of the Food Stamps would render her once again ineligible. Mrs. A would permanently lose her Supplemental Security Income. She would lose the benefits essential for survival, but considered statistically "richer." Columnist Carl Rowan has described this kind of eligibility Catch-22 as "both illogical and cruel."

If this sounds confusing now, one can imagine how it would be if this is put into effect. Mrs. A would be far from alone in her situation.

Another District resident, Mrs. B is a 75-year-old Black woman. Also widowed, Mrs. B has no children and boards in a private home. Mrs. B receives $349 a month from Social Security and Supplemental Income. She receives Food Stamps, and is dependent on Medicare and Medicaid for survival. She is severely ill, suffering from cataracts, hypertension, respiratory problems and arthritis. If Mrs. B's Medicare and Medicaid were to be counted as "cash income" she would lose her Supplemental Security Income. At age 75 she would lose half her income. She would remain poor even by the new guidelines, and could once again apply for SSI, but again, if she

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[2] Source: U.S. Bureau of the Census, technical paper 52.

[3] Source: U.S. Bureau of the Census, "A Description of the Plans, Objectives, and Activities, for the Survey of Income and Program Participation, Nov. 1983."

[4] Source: U.S. Bureau of the Census, technical paper No. 52, table 3.

receives it, the "income" would make her immediately ineligible. Mrs. B will have been put in the ultimate situation of powerlessness. Mrs. B would be penalized for being poor, for needing SSI and other benefits. Mrs. B has already been penalized for being Black and a woman—by having racisim and sexism reduce her earnings all of her life.

To be old, poor, Black, and female is to be in "Quadruple Jeopardy," each factor alone being a "jeopardy" likely to make life harder, but combined, the factors magnify one another. There are over 26,100 residents of the District of Columbia in Quadruple Jeopardy like Mrs. B. Over one-third of all the DC elderly. Over 50 percent of the older Black women in the District are well below the poverty level.[5] Many of them could be made to appear no longer poor, yet have their standard of living considerably lowered through the loss of program benefits.

In the past 20 years, many gains have been made toward assuring a decent quality of life for those who have been historically excluded by racism, sexism, and agism. OMB's sneaky redefinition of income is simply a means to chisel away these gains and put poor people, old people, minorities and women in permanent poverty. If poverty amongst District Seniors, and amongst all people, is to be eliminated—let it be through the uplifting of their circumstances through provision of the tools of a decent lift.

Hiding the poor will not eliminate poverty—it will make poverty impossible to eliminate. These Office of Management and Budget machinations are aimed directly at those who can least afford them. To paraphrase Senator Edward Kennedy, "Don't let President Reagan balance the budget on the sickbeds of the elderly."

Thank you.

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[5] Source: D.C. Office of Planning and Development.

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